

DRAFT REPORT

AN ECONOMIC ASSESSMENT OF THE PROSPECTS FOR COMPACT DEVELOPMENT IN FRESNO AND MADERA COUNTIES

Prepared for:

San Joaquin Valley Growth Response Study, Phase III

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EXECUTIVE SUMMARY

Every region has the possibility of encouraging, attracting, and populating more compact forms of residential development. However, a number of factors constrain this form of development—past development patterns, past infrastructure investments, household preferences and incomes, neighborhood opposition, and existing land use and other policies, to name a few. The Fresno Metropolitan Region, including the counties of Fresno and Madera, faces these constraints as much as, if not more than, most metropolitan regions in California. At the same time, there are opportunities that suggest that with proactive policies, developer innovation, and key investments in infrastructure and public services, the Fresno Region could start to experience the introduction of more compact forms of development.

This Report evaluates, on a regional scale, the demographic, economic, and financial opportunities for and constraints to compact forms of residential development—in particular, rowhouses/townhomes, condominiums, and three-story and above apartments.¹ It traces the historical pattern of growth in the region, considers the demographics and incomes of the current population, identifies the competitive supply of housing, and evaluates the possibility for more compact forms of residential development in the future.² Finally, it suggests an alternative future for the Region over the next 30 years that includes compact development in both infill/revitalization locations and new growth areas.³ The findings of this Report will directly inform the development of an alternative growth scenario for the San Joaquin Valley Growth Response Study (SJVGRS) Phase III land use-transportation modeling exercise.

¹ These forms of development, defined for the purposes of this Report as “compact development”, represent a shift towards more compact land use patterns. Rowhouses, townhomes, and condominiums represent more compact forms of ownership living than standard single-family detached living, while three-or-more story apartment buildings represent more compact forms of the prevalent one- and two-story apartment living in the Region.

² This economic assessment was based on the latest available information at the time of report preparation, including real estate prices as of the end of 2003. More recent real estate pricing reports have indicated significant increases in prices, a phenomenon that is likely to improve opportunities for compact development.

³ For the purposes of this Report, new growth areas are large, primarily vacant areas on the urban edge that are likely to be master-planned for development. Infill/revitalization areas include areas and corridors within the existing urban envelope with sites that are both vacant and underutilized.

KEY FINDINGS

1. The history of the Region is one of garden apartments and single-family detached development.

The Region's 2003 housing stock of 322,000 units, including 217,000 single-family detached homes, comprises about 67 percent of the total housing stock. Multifamily development accounted for most of the remainder with 24 percent of units, with mobile homes at 6 percent and single-family attached homes at 3 percent. Most of these multifamily units are older one- and two-story apartments adjacent to surface parking lots. This distribution underlines the Region's heavy reliance on lower-density forms of development. Even more significant is the trend of the last 13 years that has seen development move more in the direction of lower densities, with 82 percent of new development between 1990 and 2003 single-family detached development.

2. The lack of compact development at this time is a clear indication of the challenges to increasing its share of housing production.

The lack of compact development in the Region is a strong sign that the real estate market, under current circumstances, is not motivated in developing compact forms of development. The characteristics of the next wave of regional development can generally be determined by looking at the development projects in the supply pipeline – that is, projects that are under construction, approved, or planned. Such an assessment of the Region's supply pipeline does not point to a rapid shift in development types, though a number of new City of Fresno Redevelopment Agency (RDA) sponsored projects in the downtown area offer some expectation for new compact development.

3. An assessment of regional demographics suggests that as many as much as 12 percent of regional households might be interested in compact forms of development (this estimate excludes households with incomes in the bottom 25 percent of regional household income).

A detailed assessment of the demographics of regional households, based on Claritas, Inc.'s "PRIZM Cluster Narratives", suggests that as much as 12.4 percent of year 2000 Fresno households might have an interest in more compact forms of development. Households with incomes in the bottom 25 percent of all households are not included in this estimate as most of these households will be unable to afford new, market-rate compact development. Many of these households will still have an interest in affordable compact development. Of the roughly 12 percent of households with interest in compact development, about 4 percent are in the top 25 percent of household incomes and the remaining 8 percent are in the top 55 percent of household incomes. The number of households and the proportion of households interested are likely to grow over time as the Region grows and the number of households without children increases.

4. Despite this potential interest, the highly competitive regional housing market offers existing and new single-family detached product at relatively low prices, thereby constraining the pricing of new compact development.

The regional housing market is very competitive, and buyers and renters are very sensitive to price. At the end of 2003, existing single-family detached homes sold at a median price of \$125,000, an average of \$85 per square foot. New single-family detached development could be purchased at prices of between \$150,000 and \$650,000, though they tended to have an average price per square foot of between \$105 and \$125. While in some real estate markets, where compact forms of development are both commonplace and popular, the average price per square foot of new townhomes and condominiums is comparable to that of new single-family detached product. In this Region it is likely that the competitive price range will be lower, between \$95 to \$115 per square foot. At the end of 2003, apartment product was in the 400- to 1,100-square foot range with prices from \$400 to \$900 per month. New apartment product in three-story or higher format could likely command higher prices in the \$500 to \$1,100 per month range.

5. The constrained pricing, risks of a new product type, and costs of new compact development are likely to continue to constrain compact development in the short term.

Financial analysis of compact development prototypes demonstrates that these price points make new compact development a challenging option. Compact development appears to generate positive returns under some circumstances, as discussed below, but under many others it is not financially viable. Even where it might generate positive returns, compact development also faces significant competition from several other land uses that might be able to generate higher returns on the same site. These constraints are likely to continue, at least in the short term, limiting any major shifts towards the provision of compact development. Continued price increases at the level experienced in the Region over the last year, will, however, act incrementally to increase the feasibility of compact development.

6. The largest opportunities for early market-driven compact development are a part of master-planned communities in new growth areas.

The financial analysis suggests that returns can be made on projects that do not face lengthy entitlement obstacles, that can minimize additional parking costs, that do not need to demolish or buy-out existing buildings and businesses, and that can provide a high level of amenities. Such opportunities are most likely to occur as part of master-planned communities in new growth areas. In these cases, compact development can be integrated as part of the project, benefiting from the project-wide entitlement process and investments in infrastructure, services, and amenities, and also tapping into a segment of the first-time home-buying market that might not otherwise have been captured by the project. Developers in the region have suggested an increased awareness and interest in this type of integration.

7. Compact development in existing urbanized areas faces greater challenges.

Many of the challenges listed above, including entitlement risk and increased development cost associated with site conditions, are prevalent when looking for sites to develop in existing urbanized areas. Neighborhood opposition can be strong to such projects and obtaining approvals often requires a significant investment in education and outreach, as well as a generally higher level of project risk. Developers have complained about the lack of support provided by policymakers in the face of neighborhood opposition to higher density projects. The smaller parcels involved often create the need for property assembly and negotiations with multiple landowners. Many sites will have existing buildings that will add demolition costs, while others will have existing businesses that will only sell if the purchase price is better than the status quo income stream. Some of the properties in the Region that line potential redevelopment corridors, while old and somewhat underutilized, still generate a steady cashflow for the owners, many of whom have paid off any financing debt and invest minimal dollars in operating expenses. Given all these factors and the current limitations on pricing, it is unlikely that there will be a significant market-driven shift towards compact development in existing urbanized areas in the Region in the short to medium term.

8. New compact development could, however, occur in existing urbanized areas with support from RDAs or transit-related efforts.

Successful development and/or redevelopment in downtowns and other urbanized areas throughout California are often spurred by the participation of local Redevelopment Agencies. Whether via direct actions, such as property assembly, or direct subsidy in the form of land dedication or infrastructure financing, Redevelopment Agencies, with their power to generate income through tax increment, often play a crucial role in supporting and incentivizing the development of compact forms of development in existing urbanized areas. This role will be even more important in this Region, where purely market-driven compact development is likely to be minimal in urbanized areas in the short to medium term. The Redevelopment Agency in the City of Fresno is currently playing just such a role in its efforts to attract developers to and incentivize the development of several sites downtown. Other types of public/private partnerships that support the development of compact forms of development are associated with transit service and associated investments/actions of local jurisdictions/transportation agencies. For example, the assembly of property, the investment in capital improvements, and the more accepted need for compact development close to transit stations and corridors, can help spur new compact development.

9. The chicken-and-egg phenomenon of household interest and vibrancy of place will challenge the Fresno Region.

Households are attracted to compact development when it is in a “place”, a location with character, amenities, shopping, services, and transit links. “Place-making” often requires the attraction of households to areas that are lacking the street life, tax base, and

spending power to create a place. A strong and effective policy framework and RDA/transit investment may be required to break this stand-off.

10. Active support for compact development from policymakers and from adopted policies is fundamental to its success in the Region.

Few jurisdictions will add compact development into their array of development forms without policies and policymakers who encourage and support it in addition to the supportive community-based interest groups. The economic challenges are significant at this time, but can be lessened by supportive policies and policymakers that can increase the incentive for the developer to take a risk on a new form of development in the Region. Parking requirements, height restrictions, and other policies can be adjusted at the local level to improve the chances for compact development in one City or another. On a regional level, some local goals can be undercut by conflicting goals in a neighboring locality. This is especially true concerning the amount of land made available for lower density development by local jurisdictions, which can directly affect land use and transportation management efforts in the Region.

11. Affordable housing could also be integrated into the new higher-density areas of the Region, providing needed housing at the same time as increasing the levels of compact development.

The higher prices of new development relative to existing development in the Region may put new, market-rate compact development out of the reach of many households even when their prices are below those of most new single-family detached developments. Efforts towards increasing compact development in the Region could, however, provide compact housing options to a range of household income levels. The demographic analysis revealed that the large majority of lower income households reside in the more urban areas of the Region. Many of these households would be interested in the opportunity to reside in new, below-market-rate units in compact developments. The real estate market will not provide these forms of residences alone, though the housing set-aside portion of the tax increment revenues accruing to the Redevelopment Agencies will be available to support the construction of affordable compact developments while the other portion of tax increment revenues supports general and market-rate redevelopment efforts.

12. With an aggressive commitment to compact development as much as 11 percent of the 260,000 new households projected in the SJVGRS Study Area through 2034 might reside in compact housing development.⁴ This represents a significant increase over less than 4 percent of historical housing development that could be considered compact development.

With proactive land use, redevelopment, parking and other policies in place and a commitment to infrastructure and public service enhancements in existing urban areas, compact development could start to occur in increasing quantities in the Region. New

⁴ The Study Area is a subset of the Region that includes all the major cities, 85 percent of the Region's population, and over 95 percent of the Region's jobs.

growth areas could start to accommodate townhomes, and later condominiums and apartments, into their product mix. With strong support from relevant RDAs, infill and revitalization areas could start to see the construction of apartments, townhomes, and condominiums. Over time, increased acceptance of this product type and potential changes in the Region's economy and demography are likely to lead to a growing market share of compact development. While the compact development capture rate is not likely to be above 6.5 percent in the next decade, well below the potential demand of 12 percent, as many as 14 percent of new households could be housed in compact development beyond 2025 as compact development occurs, existing urbanized areas become more vibrant, and potential demand increases towards 15 percent. As shown in **Table ES-1**, up to 27,500 of the 260,000 new households expected in the Study Area over the next 30 years might reside in compact development. This includes 12,100 households in new growth areas and 15,400 households in infill/revitalization areas.

ORGANIZATION OF REPORT

The Report includes four chapters. **Chapter I** provides a description of the historical development trends in the Region and **Chapter II** assesses the potential demand for compact development in the Region based on geodemographic and income analyses. **Chapter III** determines the likely pricing for compact development given the competitive supply and **Chapter IV** evaluates the financial feasibility of compact development in light of these price points, development costs, and average land prices.

Table ES-1
Estimates of Market-Constrained Potential for Compact Development *
San Joaquin Valley Growth Response Study

Item	2003-2013	20013-2023	2023-2034	Total
<u>Household Growth Projections</u>				
New Households	65,852	81,620	112,528	260,000
<u>Compact Development Growth Share</u>				
New Growth Areas	3.0%	4.0%	6.0%	4.7%
Infill/ Revitalization Areas - RDA (1)	3.0%	4.0%	5.0%	4.2%
Infill/ Revitalization Areas - Non-RDA (1)	0.5%	1.0%	3.0%	1.7%
Total	6.5%	9.0%	14.0%	10.6%
<u>Compact Development Households</u> (rounded 00's)				
New Growth Areas	2,000	3,300	6,800	12,100
Infill/ Revitalization Areas - RDA (1)	2,000	3,300	5,600	10,900
Infill/ Revitalization Areas - Non-RDA (1)	300	800	3,400	4,500
Total	4,300	7,400	15,800	27,500

* Compact development is defined as rowhouses/ townhomes, condominiums/ lofts, and apartments of three stories or more.
 (1) Intensification projects are divided into two categories, those that will receives support from the RDA or other outside funding sources and those that do not.

Source: Economic & Planning Systems, Inc.

I. HISTORICAL DEVELOPMENT PATTERNS

The Region's historical development patterns have been characterized by a mixture of detached single-family and one- and two-story multifamily, apartment developments, not compact development. While the Region's urban cores include a number of older small-lot single-family residences and apartment buildings, in recent years, the Region's urban landscape has been primarily shaped by the outward spread of new single-family detached homes, reflecting the type of development that has promised the best return/risk combination to developers. Apartment development, in part spurred by tax incentives, primarily occurred in the 1970s and 1980s and has not appealed to developers in recent years. Existing apartment projects are generally located in areas considered unsuitable for single-family development, catering to persons with low to moderate household incomes.

Within the region, there are differences in the distribution of housing between single-family and multifamily development. Higher levels of existing multifamily development may point to greater opportunities for compact development, as multifamily development generally means an acceptance of higher population densities in those specific areas, though to date, there remains relatively little compact development in all jurisdictions in the Region, independent of the levels of multifamily development. The City of Fresno currently has a relatively high proportion of multifamily development compared to the rest of the region, and Madera County as a whole continues to exhibit a very high proportion of single-family detached living. Although these differences may point to different potential futures for different areas in the region, they also point to potential difficulties in efforts to manage growth across multiple jurisdictions, each with different goals and policy frameworks. Perhaps the greatest sign of the challenge for moving towards more compact forms of development is the shift towards, not away from, single-family detached development in the Region since 1990—in 1990 about 64 percent of development was single-family detached, while 82 percent of the new growth between 1990 and 2003 was single-family detached.

HOUSING DEVELOPMENT BY LOCATION

The Region has experienced strong growth in residential development for several decades. In 1980, the Region included about 218,000 housing units. The 1980s then saw the addition of about 48,000 units (4,800 units each year), an annual growth rate of 2.0 percent. The following 13 years, from 1990 to 2003, also resulted in high rates of residential development, increasing the housing stock from about 266,000 housing units to 322,000 units, an increase of about 56,000 new housing units (4,300 units each year), or an annual growth rate of 1.5 percent (see **Table 1**).

Table 1
Historical Housing Development (1990-2003)
San Joaquin Valley Growth Response Study

	Total # of Housing Units		1990-2003		1990-2003		1990-2003	
	1990	%	2003	%	New Units	%	New Units per Ann.	Growth Rate per Ann.
County Overview								
Fresno County	235,563	88%	279,874	87%	44,311	79%	3,409	1.3%
Madera County	<u>30,831</u>	<u>12%</u>	<u>42,493</u>	<u>13%</u>	<u>11,662</u>	<u>21%</u>	<u>897</u>	<u>2.5%</u>
Total	266,394	100%	322,367	100%	55,973	100%	4,306	1.5%
Incorporated Cities								
Fresno/Clovis	148,246	56%	180,965	56%	32,719	58%	2,517	1.5%
Madera/Chowchilla	11,802	4%	16,217	5%	4,415	8%	340	2.5%
Other Cities	<u>30,756</u>	<u>12%</u>	<u>40,254</u>	<u>12%</u>	<u>9,498</u>	<u>17%</u>	<u>731</u>	<u>2.1%</u>
Total	190,804	72%	237,436	74%	46,632	83%	3,587	1.7%
Unincorporated Areas								
Fresno County	56,561	21%	58,655	18%	2,094	4%	161	0.3%
Madera County	<u>19,029</u>	<u>7%</u>	<u>26,276</u>	<u>8%</u>	<u>7,247</u>	<u>13%</u>	<u>557</u>	<u>2.5%</u>
Total	75,590	28%	84,931	26%	9,341	17%	719	0.9%

Sources: California Department of Finance; Economic & Planning Systems, Inc.

As of 2003, Fresno County still included the large majority of housing development in the Region—about 280,000 units out of the Region’s 320,000 units, or 87 percent. The cities of Fresno and Clovis together accounted for about 56 percent of regional housing, the numerous other cities in Fresno County accounted for about 12 percent, and the unincorporated areas 18 percent. At the same time, Madera County included about 13 percent of the Region’s housing stock, about 42,000 housing units. Only 40 percent of Madera County’s housing (5 percent of the Region’s) are in the County’s two cities (Madera and Chowchilla) with the remaining 8 percent of the Region’s housing in the unincorporated areas of the Madera County (see **Figure 1** and **Table 1**).

The geographic distribution of new housing development between 1990 and 2003 showed differences from the development pattern through 1990. The proportion of housing locating in Madera County increased to 21 percent of new growth relative to its 1990 level of 12 percent. This growth occurred in both the cities and the unincorporated areas, both experiencing annual average growth rates of about 2.5 percent. Consistent with historical trends, the majority of new growth in Madera County located in its unincorporated areas.

The annual growth rate was also well above the average in Fresno County’s “other” cities (excluding Fresno and Clovis) at 2.1 percent. These cities captured 17 percent of the new growth between 1990 and 2003 relative to their 1990 level of 12 percent. At the same time, the combined cities of Fresno and Clovis grew at the regional average rate, maintaining a growth share of just below 60 percent. The City of Fresno, however, continued to decline in terms of its percentage share, capturing 43 percent of growth relative to its 1990 share of 49.5 percent of housing stock. This decline was made up for by Clovis’ increasing proportionate share, capturing 15 percent of growth relative to its 1990 share of 6 percent. The housing stock of the unincorporated areas of Fresno County barely increased.

HOUSING DEVELOPMENT BY TYPE

In 1980, the Region’s housing was about 71 percent single-family (detached and attached), 25 percent multifamily, and 5 percent mobile homes. The 1980s showed a shift in the housing stock towards multifamily and mobile home development. Multifamily and mobile home development represented 50 percent of new growth, and experienced rates of growth of over twice the annual growth rate of 1.5 percent experienced by single-family development (see **Table 2**).

The next 13 years, from 1990 to 2003, also showed high rates of residential development, though the distribution shifted towards lower density development. In 1990, the Region included about 266,000 housing units, 64 percent single-family detached, 3 percent single-family attached, 27 percent multifamily, and 6 percent mobile homes. Between 1990 and 2003, the large majority, 88 percent of new development, was single-family (including 82 percent single-family detached and 6 percent single-family attached),

Figure 1
Regional Housing Distribution by Location

Sources: DOF and Economic & Planning Systems, Inc

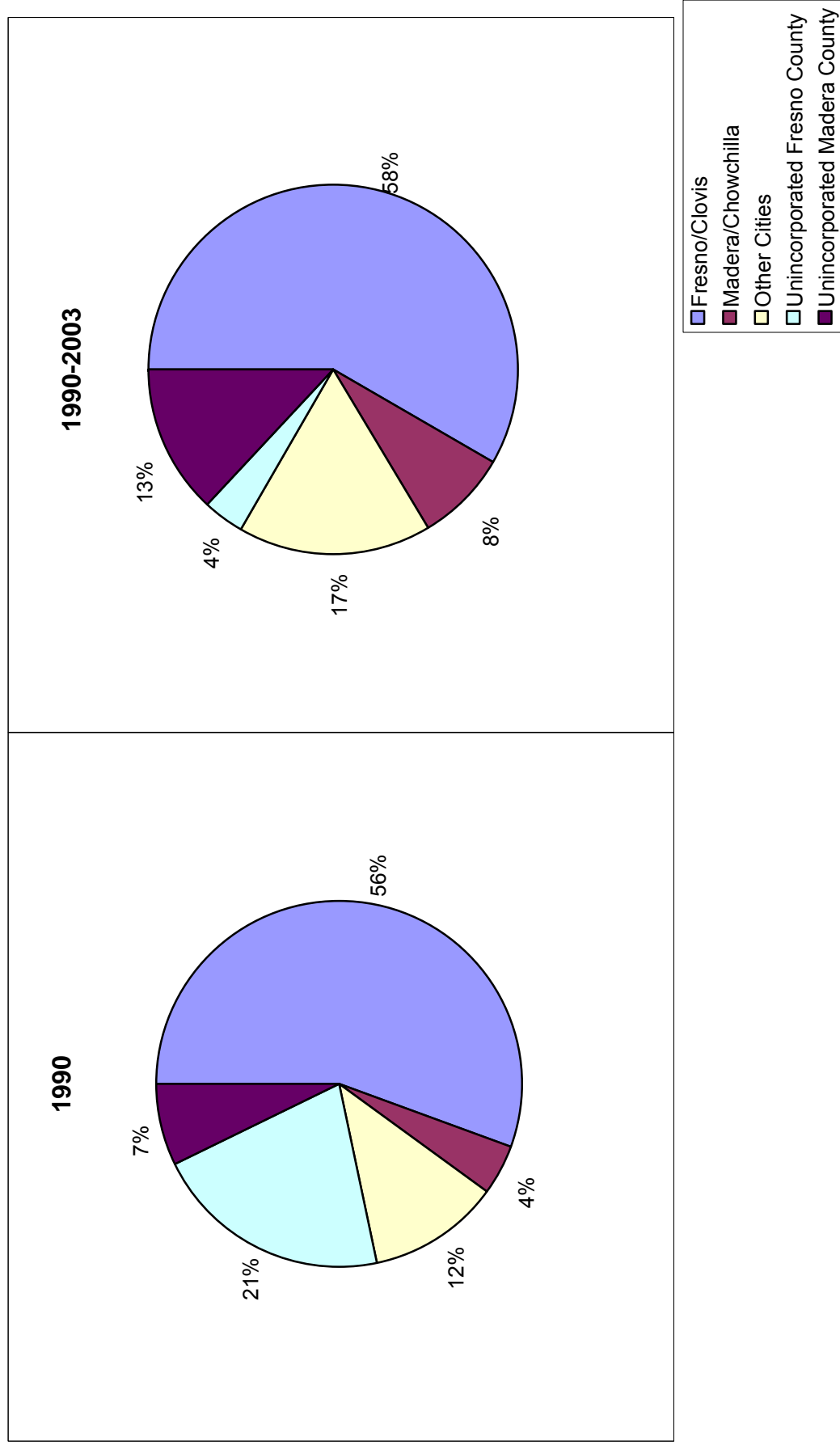


Table 2
Historical Housing Development by Unit Type in Madera and Fresno Counties (1980-1990)
San Joaquin Valley Growth Response Study

Unit Type	1980	% Total	1990	% Total	1980-1990		
					Total Growth	% Total Growth/ Ann.	Growth Rate/Ann.
Single Family	154,058	71%	178,241	67%	24,183	50%	2,418
Multifamily	54,034	25%	72,432	27%	18,398	38%	1,840
Mobile Homes	10,168	5%	15,721	6%	5,553	12%	555
Total Housing Units	218,260	100%	266,394	100%	48,134	100%	4,813
							2.01%

9 percent was multifamily, and 2 percent was mobile homes. The annual growth rate of single-family development was about 2.0 percent, about four times the rates for multifamily and mobile home development (see **Figure 2** and **Table 3**).

As of 2003, the Region included about 323,000 housing units with a proportionate distribution very similar to the 1980 distribution—71 percent single-family (67 percent detached, 4 percent attached), 24 percent multifamily, and 5 percent mobile homes. Within the Region, there are significant differences between subareas in the housing distribution between product types. On the County level, Fresno County has a significantly lower proportion of single-family detached development and higher proportions of multifamily than Madera County. Currently, 26 percent of the housing stock in Fresno County is multifamily, compared to 12 percent for Madera County (see **Table 4**). Despite these differences, the housing stock in both counties was less than 5 percent compact development.

Cities in both counties also show strong differences from unincorporated areas. The Cities of Fresno and Clovis have the highest proportion of multifamily development at 33 percent. Other cities in Fresno County and the Cities of Madera and Chowchilla have similar proportions, with about 25 percent of their housing multifamily. Unincorporated areas in both counties show much different proportions, both with over 81 percent as single-family detached and less than 6 percent as multifamily. The difference between the counties overall can be attributed to the greater concentration of development in Fresno County in its cities, along with a higher concentration on multifamily development in Fresno County's largest cities of Fresno and Clovis. The proportions of single-family attached development show much less variation by County and by subarea than the other product types (see **Table 4**).

REGIONAL DIFFERENCES

The experience of other regions provides a benchmark for comparison. **Table 5** shows housing development by type for a number of other counties that in the not-too-distant past were predominantly agricultural/rural in nature. An indication of the level of compact development is provided by the proportional distribution of development. In particular, an increasing proportion of single-family detached development suggests a less compact development pattern, an increasing proportion of single-family attached suggests a more compact development pattern, and an increasing proportion of multifamily developments suggest either a constant or more compact level of development, depending on whether the product types go beyond the standard one- and two-story garden apartments.

- Santa Clara County, the richest and most land-constrained of these counties and once the poster-child for sprawl, is now experiencing significant growth in compact forms of development. In 2003, single-family detached development stood at 55 percent of its total, and between 1990 and 2003 only 47 percent of new development was single-family attached.

Figure 2
Regional Housing Distribution by Type
Sources: DOF and Economic & Planning Systems, Inc.

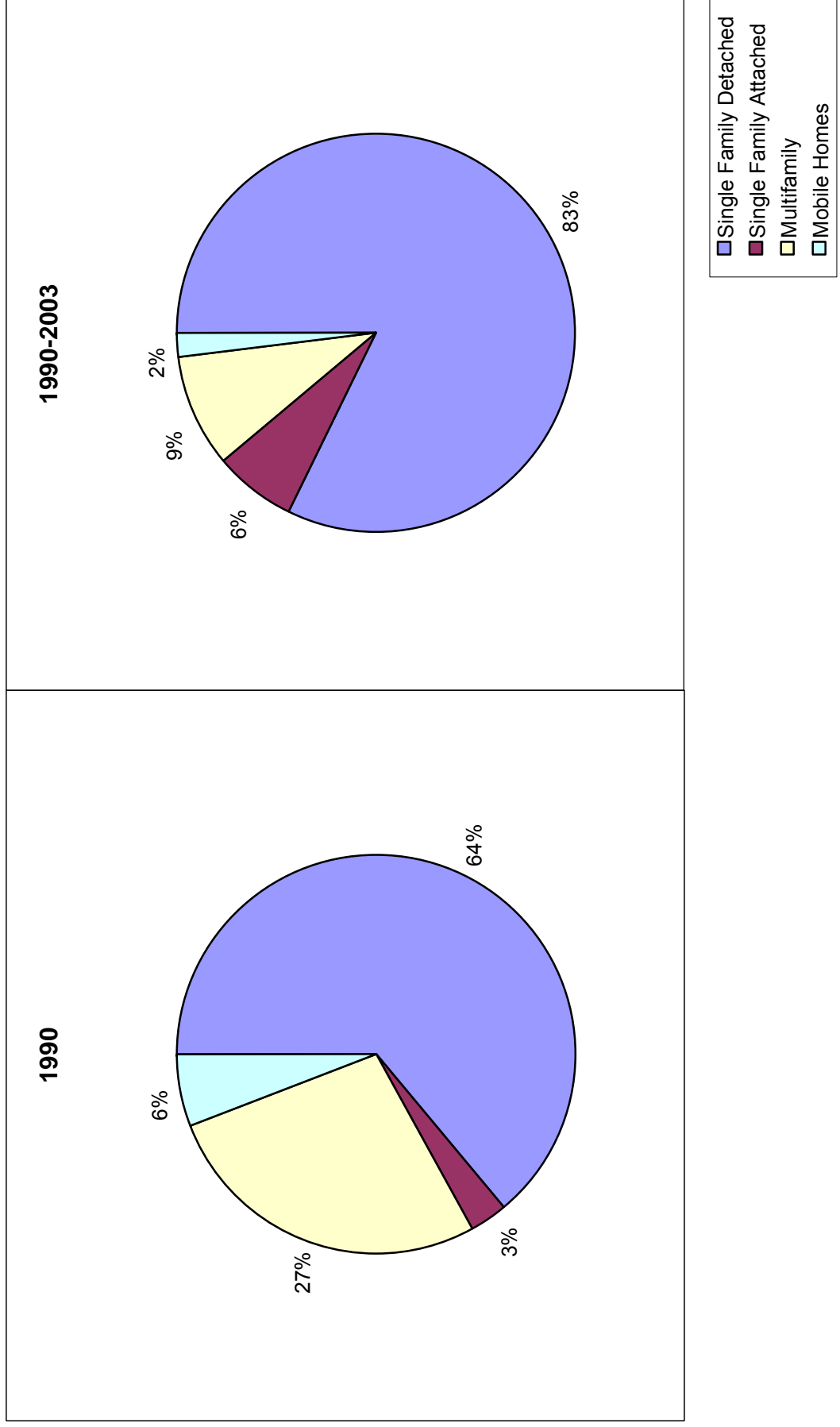


Table 3
Historical Housing Development by Unit Type in Madera and Fresno Counties (1990-2003)
San Joaquin Valley Growth Response Study

Unit Type	1990	% Total	2003	% Total	1990-2003		
					Total Growth	% Total	Growth Rate/Ann.
Single Family Detached	170,451	64%	216,542	67%	46,091	82%	3,545
Single Family Attached	7,790	3%	11,395	4%	3,605	6%	277
Multifamily	72,432	27%	77,661	24%	5,229	9%	402
Mobile Homes	15,721	6%	16,769	5%	1,048	2%	81
Total Housing Units	266,394	100%	322,367	100%	55,973	100%	4,306
							1.5%

Sources: California Department of Finance; Economic & Planning Systems, Inc.

Table 4
Housing Distribution by Type in the Region's Subareas, 2003
San Joaquin Valley Growth Response Study

Geography	Single Family Detached	Single Family Attached	Multi Family	Mobile Homes	Total
County Overview					
Fresno County	66%	4%	26%	5%	100%
Madera County	<u>77%</u>	<u>3%</u>	<u>12%</u>	<u>8%</u>	<u>100%</u>
Average	67%	4%	24%	5%	100%
Incorporated Cities					
Fresno/Clovis	60%	4%	33%	3%	100%
Madera/Chowchilla	68%	5%	25%	2%	100%
Other Cities	<u>68%</u>	<u>5%</u>	<u>23%</u>	<u>4%</u>	<u>100%</u>
Average	62%	4%	31%	3%	100%
Unincorporated Areas					
Fresno County	81%	3%	5%	12%	100%
Madera County	<u>82%</u>	<u>2%</u>	<u>4%</u>	<u>12%</u>	<u>100%</u>
Average	81%	2%	5%	12%	100%

Sources: California Department of Finance; Economic & Planning Systems, Inc.

Table 5
Regional Comparison of Housing Distribution by Type
San Joaquin Valley Growth Response Study

Geography	Single Family Detached	Single Family Attached	Multi Family	Mobile Homes
<u>2003 Distribution</u>				
Santa Clara County	55%	9%	33%	3%
Sacramento County	63%	6%	27%	3%
Stanislaus County	74%	4%	16%	6%
Fresno/ Madera Counties	67%	4%	24%	5%
<u>1990-2003 Growth Distribution</u>				
Santa Clara County	47%	10%	46%	-2%
Sacramento County	82%	2%	15%	1%
Stanislaus County	92%	4%	3%	0%
Fresno/ Madera Counties	82%	6%	9%	2%

Sources: California Department of Finance; Economic & Planning Systems, Inc.

- Sacramento County lies between Santa Clara County and the Region in terms of its economy and income levels. Sacramento County still has significant land areas available for development and is grappling with efforts to increase its levels of compact development. Downtown Sacramento has seen some successes, though the norm is still for traditional, non-compact forms of development. In 2003, single-family detached development stood at 63 percent of the total. Between 1990 and 2003, 82 percent of new housing was single-family detached.
- Stanislaus County, a geographically more proximate area, is more similar to the Region in terms of its economic base, though it also accommodates residents who commute to San Francisco Bay Area jobs. As a result, while the City of Modesto has had some success in encouraging compact development in its downtown, the large majority of development is single-family detached, some of it aimed at Bay Area commuters who locate in Modesto specifically for this type of housing and its pricing. In 2003, single-family detached development stood at 74 percent of the total. Between 1990 and 2003, 92 percent of new housing was single-family detached.

Considered in this context, the Region (Fresno and Madera counties) shows positives and negatives in terms of its prospects for compact development. On the positive side, the Region is not that different in current housing distributions from other Central Valley counties, such as Sacramento and Stanislaus, though the numbers do not capture the greater proportion of market-rate multifamily development in these counties that is three-story and above. The Region also does not experience a strong demand for single-family detached development from workers in other regions. On the negative side, the Counties to which it is comparable in housing distribution are also struggling with attempts to move towards more compact forms of development, and like the Region, in the last 13 years have, in some ways, moved away from, not towards, more compact forms of development. As discussed below, differing developer risks and returns, land use policies, and infrastructure and other public investments have all played a role.

II. POTENTIAL DEMAND FOR COMPACT DEVELOPMENT

The greatest determinants of the housing people choose are their incomes and their space and lifestyle preferences (demand side) and the housing options available at different prices (the supply side). With sufficient income, households will select their preferred choice from the available options. As incomes rule out certain options, households will choose their preferred option given what is available at the prices they can afford. This section explores the potential demand for new, more compact forms of development, based on the demographic make-up, existing housing choices, and incomes of the Region's households. Subsequent chapters test the potential for this demand to be realized based on the competitive supply and pricing of other forms of housing in the region and the economics of constructing compact development.

Individual households will have individual sets of housing preferences. However, housing preferences can be loosely tied to the demographics of the household—the number of persons in the household, the type of household (e.g. family vs. nonfamily), the stage of life/age of the household members, and possibly also the nationality/ethnicity of the households. The literature on the demand for compact development suggests that: (1) young professional couples, (2) empty nesters, (3) new starts (divorcees) and singles of all ages, and (4) first-time home buyers (including families) will be the primary sources. Some seniors as well as households eligible for affordable living may also demand a specialized form of compact development.

As discussed in **Chapter II**, there has been very little compact development to date in the Region. As of 2003, there were about 11,400 units of single-family attached development spread throughout the Region (3.5 percent of regional housing) and very few three-story or above, market-rate multifamily developments. Indeed, the only residential developments that have risen in recent years to three stories or higher are the senior and affordable housing projects.

POTENTIAL INTEREST IN COMPACT DEVELOPMENT

This section estimates potential demand for compact forms of development by existing households in the Region based on their geodemographic characteristics. This evaluation is primarily based on Claritas, Inc.'s, geodemographic classification system and the details of each of the geodemographic groups and subgroups (see **Appendix A**).⁵ A description of the approach, analysis, assumptions, and results is provided below.

⁵ The geodemographic analysis is based on 2000 Census data as this is the latest year in which detailed demographic information is available.

APPROACH

Claritas, Inc., has developed a system of classifying households based on their household characteristics and their current housing choices called “PRIZM Cluster Narratives”. Year 2000 household characteristics considered include a broad range of census data, including household size, household income, and household ethnicity, as well as current housing choices, including urban, suburban, and country living. The PRIZM classification divides people and households into five groups based on their locations (urban (U), suburban (S), 2nd City (C), small town (T), and rural (R)), each of which is further divided into three income groups (high (1), medium (2), and low (3)) to create a total of 15 primary demographic groups. Each of these demographic groups also contains several subgroups (see **Appendix A**). As described in more detail below, each geodemographic group and subgroup was assessed for its potential demand for compact development.

The evaluation of potential demand was conducted independent of “quality of place” considerations. In other words, this evaluation was not constrained by the current or expected future set of private (retail, services) or public (transit, public spaces, public services) amenities. Rather it was assumed that these amenities were present in sufficient scale to meet the general preferences of those interested in compact forms of development and thereby represents a high estimate of potential demand. It was also assumed that households with incomes in the bottom 25 percent of the Region’s households would not be able to afford new compact development and were excluded from the analysis. Both income and “quality of place” considerations are considered in more detail in subsequent sections. Equally, potential demand was not increased based on the possibilities of developable land constraints and an associated limited supply of non-compact forms of development. The potential for such an occurrence to affect demand for compact development is also considered in subsequent sections.

Estimates of potential demand are distributed between new growth areas and existing urban areas. These geographic classifications were developed as part of the San Joaquin Valley Growth Response Study (SJVRS) GIS-modeling exercise. The new growth areas refer to large areas that will be master-planned with a mix of residential and other uses, possibly including more compact forms of residential development. The existing urban areas refer to areas that already have significant amounts of development and could possibly incorporate compact development on vacant or redeveloped sites.

GEODEMOGRAPHIC DISTRIBUTION

Table 6 shows the fifteen primary groups, their definitions, and the proportion of U.S. and regional households that fall within each category. The relative income levels of the households in each group are also indicated.

Table 6
Geodemographic and Spatial Distribution of Households in the Region
San Joaquin Valley Growth Response Study

Geodemographic Category	% of U.S. Hhlds	% of Region's Hhlds	Income Level (Region)	Definitions (1)
Urban Focus				
Urban Uptown (U1)	5.0%	1.7%	Top 15%	Affluent professionals and executives of mixed ages. Primarily smaller households sizes with few kids. Strong interest in urban living, both renting and owning.
Urban Midscale (U2)	6.0%	10.1%	Top 25 - 55%	Backbone of the middle-income, urban fringe neighborhoods. Live in dense, ethnically diverse neighborhoods and use public transportation.
Urban Cores (U3)	5.0%	11.5%	Bottom 12.5%	Least affluent group. Generally live in dense urban neighborhoods in rented rowhouses and apartments. High numbers of singles, single parents with young children, and unemployment.
Subtotal	16.0%	23.3%		
Suburban Focus				
Elite Suburbs (S1)	9.5%	10.7%	Top 15%	High incomes, educations, investments, spending. Primarily aged between 45 and 65 and live in suburbs. Includes some empty nesters with interest in compact living.
The Affluentials (S2)	8.0%	7.6%	Top 25%	A broad range of middle/ upper income households. who often live in a mix of homes, condos, and apartments in higher end neighborhoods.
Inner Suburbs (S3)	6.0%	6.9%	Top 25 - 55%	A broad range of middle income suburb dwellers. Includes many childless households, some young, some senior, and some divorcees/ single parents.
Subtotal	23.5%	25.1%		
2nd City Focus				
2nd City Society (C1)	6.0%	1.3%	Top 15%	Middle/ upper income professionals, often living in small cities. Mix of age groups and aspirations. Includes affluent retirees.
2nd City Centers (C2)	7.0%	3.9%	Top 25 - 55%	Range of middle income households living in denser, satellite cities surrounding major metro area. Includes some young educated students and professionals.
2nd City Blues (C3)	7.0%	13.4%	Bottom 25%	Mainly low to middle incomes, living in urban areas of second cities. Mix of agrarian, retail, and service jobs combined with pockets of unemployment.
Subtotal	20.0%	18.6%		
Small Town Focus				
Landed Gentry (T1)	7.5%	2.9%	Top 20%	Large multi-income families with school aged kids, generally headed by middle/ upper income professionals. Generally live well outside of urban areas.
Exurban Blues (T2)	6.0%	3.4%	Top 25 - 55%	Range of middle income households living in small, low density cities on the outskirts of the Metro area. Generally own homes, are married, and raising kids.

Table 6
Geodemographic and Spatial Distribution of Households in the Region
San Joaquin Valley Growth Response Study

Geodemographic Category	% of U.S. Hhlds	% of Region's Hhlds	Income Level (Region)	Definitions (1)
Working Towns (T3)	7.0%	1.6%	Bottom 25%	Live far from urban areas and work blue-collar jobs. General own or rent single family homes.
Subtotal	20.5%	7.8%		
Rural Focus				
Country Families (R1)	7.0%	3.6%	Top 25 - 55%	Middle income households living in small towns. Generally white, married families with kids, working in industrial and agrarian occupations. Generally own houses or mobile homes.
Heartlanders (R2)	3.0%	17.6%	Bottom 45%	Large, multi generational families, in agrarian occupations living in rural areas.
Rustic Living (R3)	10.0%	3.9%	Bottom 45%	Married couples, kids, and seniors share mobile homes in rural areas.
Subtotal	20.0%	25.1%		
Total	100.0%	100.0%		

(1) Definitions summarized from Claritas Inc.'s PRIZM Cluster Narratives (see Appendix A).
Sources: Claritas, Inc; Economic & Planning Systems, Inc.

- **Urban.** About 23 percent of the Region's household live in urban neighborhoods, a greater proportion of households than for the U.S. as a whole. This difference is primarily due to the large proportion of poor, urban households in the Region (11.5 percent). The Region's urban neighborhoods have a greater share of middle income households (10.1 percent) relative to the U.S., though a smaller share of affluent households.
- **Suburban.** About 25 percent of the Region's household live in suburban neighborhoods, similar to the proportion of suburban households in the U.S. as a whole. Suburban families tend to be wealthier than the other groups and the distribution of households between upper-income and middle-income (18 percent) is similar for the Region as the U.S. Some of the households in this group live in denser, high-end neighborhoods.
- **Second Cities.** About 19 percent of the Region's households live in "second cities" (the smaller cities that surround the major cities), similar to the proportion of second city households in the U.S. as a whole. The majority of these households in the Region have low/medium incomes (13.4 percent), though some have middle and higher income levels. The higher income households in this category are often retirees, sometimes living in retirement communities.
- **Small Towns.** About 8 percent of the Region's households live in towns (small towns far from the major urban areas), a significantly smaller proportion than in the U.S. as a whole across all income groups.
- **Rural Areas.** About 25 percent of the Region's households live in the Region's rural areas, more than for the U.S. as a whole. The majority of the Region's households in these categories are large, multigenerational families with moderate incomes in agrarian occupations (17.6 percent).

ASSESSMENT OF POTENTIAL DEMAND

The proportion of each geodemographic group and subgroup that might be interested in compact development was assessed based on its geodemographic characteristics. Potential interest was distinguished between interest in compact development in new growth areas and interest in compact development in existing urban areas. **Table 7** shows this evaluation.

It was conservatively assumed that households currently residing in small towns and rural areas would not be interested in compact development. It was also assumed that households in the bottom 25 percent of the income range would not be able to afford to live in new development. The remaining 45 percent of households in the Region was then evaluated based on its geodemographic description.

Table 7
Estimate of Potential Demand for Compact Development
San Joaquin Valley Growth Response Study

Geodemographic Group/ Sub-Group	Sub-Group Definition	% of Region's Hhlds	Proportional Interest	% of Hhlds Interested	New Growth Areas	Urbanized Areas
Urban Focus						
<u>Urban Uptown (U1)</u>						
Money and Brains	Some singles/ couples.	1.0%	35.0%	0.4%	0.2%	0.2%
Other	Other	<u>0.7%</u>	35.0%	<u>0.2%</u>	<u>0.0%</u>	<u>0.2%</u>
Total		1.7%		0.6%	0.2%	0.4%
<u>Urban Midscale (U2)</u>						
Urban Achievers	Mid-level, Urban Couples.	2.5%	75.0%	1.9%	0.5%	1.4%
Other	Other	<u>7.6%</u>	25.0%	<u>1.9%</u>	<u>0.5%</u>	<u>1.4%</u>
Total		10.1%		3.8%	0.9%	2.8%
Subtotal		11.8%	37.1%	4.4%	1.1%	3.3%
Suburban Focus						
<u>Elite Suburbs (S1)</u>						
Pools and Patios	Empty-nesters.	1.3%	50.0%	0.6%	0.5%	0.1%
Other	Other	<u>9.4%</u>	2.5%	<u>0.2%</u>	0.2%	<u>0.0%</u>
Total		10.7%		0.9%	0.8%	0.1%
<u>The Affluentials (S2)</u>						
Young Influentials	Childless urbanites.	1.4%	70.0%	1.0%	0.3%	0.7%
New Empty Nests	Empty-nesters.	2.0%	50.0%	1.0%	1.0%	0.0%
Other	Other	<u>4.1%</u>	2.5%	<u>0.1%</u>	0.1%	<u>0.0%</u>
Total		7.6%		2.1%	1.4%	0.7%
<u>Inner Suburbs (S3)</u>						
Upstarts and Seniors	Mid-Income, Empty Nesters.	1.0%	70.0%	0.7%	0.5%	0.2%
New Beginnings	Young, Mobile, Singles.	1.8%	70.0%	1.2%	0.7%	0.5%
Gray Collars	Aging, Blue-Collar Couples.	2.4%	35.0%	0.8%	0.6%	0.2%
Other	Other	<u>1.8%</u>	0.0%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total		6.9%		2.8%	1.9%	0.9%
Subtotal		25.1%	22.9%	5.8%	4.1%	1.7%
2nd City Focus						
<u>2nd City Society (C1)</u>						
Gray Power	Affluent, retired seniors.	1.3%	35.0%	0.5%	0.4%	0.1%
Other	Other	<u>0.0%</u>	10.0%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total		1.3%		0.5%	0.4%	0.1%
<u>2nd City Centers (C2)</u>						
Towns and Gowns	College Town Singles.	2.6%	70.0%	1.8%	0.7%	1.1%
Other	Other	<u>1.4%</u>	3.5%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total		3.9%		1.8%	0.7%	1.1%
Subtotal		5.2%	44.0%	2.3%	1.1%	1.2%
Total		45.0%		12.4%	6.3%	6.1%

Sources: Claritas, Inc; Economic & Planning Systems, Inc.

Table 7 shows the primary geodemographic groups in the urban, suburban, and second city areas and subgroups which are particularly likely to be interested in compact development or represent an especially large proportion of the Region's households in that geodemographic group. A potential interest weighting between 0 and 75 percent was given to each of these groups. As shown, singles and couples of all ages were considered the most likely to be attracted to townhomes, condominiums, lofts, and new multistory apartments. Young singles and couples, empty-nesters, single-parents, and new starts (divorcees) were the primary constituents of interest, though a proportion of other groups is also likely to be interested.

As shown, of the 12 percent existing urban households with incomes above the bottom 25 percent, over one-third, about 4.4 percent, are expected to have an interest in compact living. The majority of this interest is expected to occur in existing urbanized areas, though some is likely to occur in new growth areas. Similarly, of the 25 percent suburban households in this income range, over one-fifth of households are expected to have an interest in compact development, primarily in new growth areas. Only 5 percent of households in this income range live in second cities, though close to 45 percent of them, primarily affluent retirees and college town singles (young students and workers), are expected to have an interest in compact development.

ESTIMATED POTENTIAL DEMAND

Table 8 summarizes the results of the analysis shown in **Table 7**. As shown, about 12.4 percent of existing households in the Region in 2000 are considered to have a potential interest in compact forms of development, if the development is available in places that offer a strong set of private and public amenities. About half of this interest is for development in new growth areas and about half is for development in existing urbanized areas. About 4.4 percent of the demand is expected to emanate from households currently living in more urban areas, 5.8 percent from households in more suburban areas, and 2.3 percent from households in smaller cities.

By income level, about one-third of this demand is from households in the top 25 percent of incomes, with the remaining two-thirds from households in the top 25 to 55 percent. The majority of the higher income households are projected to be interested in the new growth areas, while the middle/upper income households to be more interested in the existing urbanized areas.

POTENTIAL HOUSING DEMAND PROFILE

The potential demand for compact development can be translated into a demand profile based on actual income levels. The demand profile shows the different rental and purchase prices these households can afford. Ultimately, it is the balancing of this interest in compact development, the ability to pay, the pricing of competitive product

Table 8
Summary of Potential Demand by Group, Income, and Location
San Joaquin Valley Growth Response Study

Geodemographic Category	Total Compact Demand	New Growth Demand	Urbanized Area Demand
Demand by Geodemographic Group			
<u>Urban Focus</u>			
Urban Uptown (U1)	0.6%	0.2%	0.4%
Urban Midscale (U2)	3.8%	0.9%	2.8%
Subtotal	4.4%	1.1%	3.3%
<u>Suburban Focus</u>			
Elite Suburbs (S1)	0.9%	0.8%	0.1%
The Affluentials (S2)	2.1%	1.4%	0.7%
Inner Suburbs (S3)	2.8%	1.9%	0.9%
Subtotal	5.8%	4.1%	1.7%
<u>2nd City Focus</u>			
2nd City Society (C1)	0.5%	0.4%	0.1%
2nd City Centers (C2)	1.8%	0.7%	1.1%
Subtotal	2.3%	1.1%	1.2%
Total	12.4%	6.3%	6.1%
Demand by Income Level			
<u>Top 25%</u>			
Urban Uptown (U1)	0.6%	0.2%	0.4%
Elite Suburbs (S1)	0.9%	0.8%	0.1%
2nd City Society (C1)	0.5%	0.4%	0.1%
The Affluentials (S2)	2.1%	1.4%	0.7%
Subtotal	4.0%	2.7%	1.3%
<u>Top 55%</u>			
Urban Midscale (U2)	3.8%	0.9%	2.8%
Inner Suburbs (S3)	2.8%	1.9%	0.9%
2nd City Centers (C2)	1.8%	0.7%	1.1%
Subtotal	8.4%	3.6%	4.8%
Total	12.4%	6.3%	6.1%

Sources: Claritas, Inc; Economic & Planning Systems, Inc.

types, and development costs that determine actual construction and lease/sale of this housing type. This section describes the current distribution of household incomes in the Region and estimates a potential demand profile for compact development. Subsequent chapters integrate this profile into the evaluation of the feasibility of compact development in the Region.

REGIONAL HOUSEHOLD INCOMES

The median household income in the Region in 2000 was \$35,000 (in 2000 dollars), an average annual increase of 2.8 percent in nominal dollar terms from the 1990 income level of \$26,500. The 289,500 households in the Region as of 2000 had a diverse range of income categories (see **Table 9**). About one-third of households (97,000 households) had annual incomes over \$50,000, including about 25,000 households with incomes over \$100,000, 23,000 households with incomes between \$75,000 and \$100,000, and 50,000 households with incomes between \$50,000 and \$75,000. Just under one-third of households (89,000 households) had incomes between \$25,000 and \$50,000, and just over one-third of households (103,000 households) had incomes below \$25,000. Assuming nominal dollar incomes have increased between 2000 and 2004 at the same rate as between 1990 and 2000, the current median household income is about \$39,800 and the income brackets are higher as shown in **Table 9**.

HOUSING EXPENDITURES

Household incomes by percentile were identified consistent with the income distribution of geodemographic groups potentially interested in compact development shown in **Table 8**. Based on these household incomes and standard assumptions concerning the proportion of gross household income spent on housing, the range of housing prices and rents affordable to each of the relevant geodemographic groups was identified. The resulting existing demand for compact development is shown in **Table 10** and summarized below.

- **Upper Income.** The relevant 4.0 percent of regional households in the top 25 percent of household incomes could afford to pay \$1,750 and above in monthly rent or purchase a home costing \$245,000 and above.
- **Middle/Upper Income.** The relevant 8.4 percent of regional households in the top 25 to 55 percent of household incomes could afford to pay between \$930 and \$1,750 in monthly rent or purchase a home costing between \$130,000 and \$245,500.

Table 9

**2000 Household Income Distribution in the Region
San Joaquin Valley Growth Response Study, Phase III**

Households by Income Category (2000\$\$)	Households		Income Category (2004\$\$) (1)
	Number	% of Total Cumulative	
\$24,999 and less	103,440	36%	\$27,900 and less
\$25,000 to \$49,999	88,670	31%	\$27,900 \$55,800
\$50,000 to \$74,999	49,544	17%	\$55,800 \$83,800
\$75,000 to \$99,999	23,113	8%	\$83,800 \$111,700
\$100,000 and More	<u>24,744</u>	<u>9%</u>	\$111,700 and more
Total	289,511	100%	--

(1) Assumes historical nominal dollar increase in incomes of 2.8 percent per annum continues.

Sources: 2000 Census; Economic & Planning Systems, Inc.

Table 10

**Potential 2003 Compact Development Demand Profile
San Joaquin Valley Growth Response Study**

Household Income Percentile	Interested Households (% of Region)	Household Income (2004 \$\$)	Affordable Monthly Rent (1)	Affordable Home Price (2)
Top 25%	4.0%	\$69,800 +	\$1,745 +	\$244,000 +
Top 55%	8.4%	\$37,200 +	\$930 +	\$130,000 +
Total	12.4%			

(1) Assumes 30 percent of gross annual income spent on renting.

(2) Assumes:

- 30 percent of gross annual income spent on renting.

- 20-year loan at 6.5 percent interest rate with 10 percent down payment.

Source: Economic & Planning Systems, Inc.

III. COMPETITIVENESS AND PRICING OF COMPACT DEVELOPMENT

New compact development will not only have to offer the right product in the right place, but will also need to be price competitive with existing development including existing and new single-family detached homes. This chapter evaluates the likely competitive position of new compact development in the Region. In particular, it considers the current pricing of different housing types in the Region and estimates the potential competitive pricing of new compact development in the Region. It also compares this product-competitive pricing with the housing demand profile to determine whether the pricing/ability-to-pay relationship is one that might constrain compact development. The subsequent chapter integrates these price points into its evaluation of the economic feasibility of different types of compact development in different locations.

EXISTING HOUSING PRICES

This section describes the average pricing of the for-sale and rental housing stock in the Region at the current time. Specific subareas of the Region are described where data is not available at the regional level, or a more accurate portrait of pricing can be shown through subarea detail.

FOR-SALE HOUSING

For-sale housing is made up of single-family homes, townhomes, and condominiums, though single-family detached units represent the large majority of for-sale units. The median prices of single-family detached homes (both old and new) in different subareas of the Region are shown in **Table 11** and described below.

- The median price of a single-family home in the region in 2002 was about \$125,400, about \$85 per square foot, with the median home size at 1,471 square feet.
- The median price varies by jurisdiction with the City of Madera and the City of Fresno offering the lowest prices, both at about \$120,000, about \$82 per square foot.
- The Fresno County median housing price is \$125,000, and prices by jurisdiction vary widely with the City of Clovis commanding median prices of \$163,000, \$99 per square foot.
- The unincorporated areas of Madera County as a whole have higher prices than the City of Madera as indicated by the Countywide median (incorporated and unincorporated together) of \$134,000 (\$89 per square foot) in Madera County.

Table 11
Single Family Home Sales and Median Prices in the Region, 1992 - 2002
San Joaquin Valley Growth Response Study

Geography	1992	1997	2002	Ann. Growth Rate 1992-02 1997-02	
<hr/>					
<u>Fresno County</u>					
Sales Price	\$98,875	\$97,591	\$124,542	2.3%	5.0%
Square Feet	1,504	1,468	1,467	--	--
Price per SqFt	\$66	\$66	\$85	--	--
No. of Transactions	8,334	6,335	10,594	--	--
<u>Madera County</u>					
Sales Price	--	\$96,208	\$133,523	--	6.8%
Square Feet	--	1,523	1,507	--	--
Price per SqFt	--	\$63	\$89	--	--
No. of Transactions	--	997	1,331	--	--
<u>City of Fresno</u>					
Sales Price	\$96,521	\$83,729	\$119,627	2.2%	7.4%
Square Feet	1,491	1,474	1,454	--	--
Price per SqFt	\$65	\$57	\$82	--	--
No. of Transactions	5,494	4,463	7,475	--	--
<u>City of Clovis</u>					
Sales Price	\$126,708	\$115,417	\$163,062	2.6%	7.2%
Square Feet	1,701	1,602	1,648	--	--
Price per SqFt	\$74	\$72	\$99	--	--
No. of Transactions	1,394	780	1,461	--	--

Sources: RAND; Economic & Planning Systems, Inc.

- Between 1992 and 2002, housing prices have increased at a rate of about 2.3 percent, similar to the rate of household income growth and inflation. Housing prices stagnated or declined between 1992 and 1997, and the period 1997 to 2002 has resulted in growth at rates above 7 percent per annum in some jurisdictions.

RENTAL HOUSING

Rental housing in the Region primarily consists of apartments in the Region's cities, though some townhomes and single-family detached homes are available for rent. Apartment construction was most frequent in the 1970s and 1980s, when a number of apartment buildings both large and small were constructed. Apartment construction over the last decade has been more limited. **Table 12** shows the detailed information on the current inventory and pricing of large apartments in the City of Fresno and **Table 13** shows similar information for a subset of the City's smaller apartment buildings.

- As of 2003, there were about 6,300 rental units in apartment projects of over 50 units in the City of Fresno.
- The product types at these large apartment projects varied from studios to three-bedroom, two-bath apartments, and include two- and three-bedroom townhomes.
- The most common product types are one-bedroom, one-bath; two-bedroom, one-bath; and two-bedroom, two-bath, together representing over 80 percent of units. Rental townhomes represented about 8 percent of the product.
- Average monthly rents at large apartment buildings in the City of Fresno are about \$680 with an average size of 905 square feet, and an average per-square foot monthly rent of \$0.75.
- Rents varied from \$450 to \$950 with unit size, though per-square foot rates fell from \$1.05 per square foot to \$0.65 per square foot as unit size increases.
- Excluding three-bedroom townhomes and studios, the range was \$600 to \$825 per square foot, with second bathrooms commanding significant premiums.
- Unit sizes varied from 400 square feet to 1,300 square feet, though the large majority was in the 700- to 1,050-square foot range.
- In addition to these larger apartment projects, there are numerous smaller apartment projects throughout the City of Fresno. A selected sample of these apartment projects showed similar pricing to the apartments at the larger projects.

Table 12**City of Fresno Rental Large Apartment Inventory and Pricing *
San Joaquin Valley Growth Response Study**

Types of Units (Bedrooms/Baths)	# of Units	% Mix	Avg SqFt	Avg Rent	Avg Rent/ SqFt
0/1	84	1.3%	438	\$458	\$1.05
1/1	1,648	26.1%	693	\$597	\$0.86
2/1	2,212	35.1%	897	\$633	\$0.71
2/2	1,319	20.9%	1,036	\$822	\$0.79
2TH	397	6.3%	1,124	\$775	\$0.69
3/2	538	8.5%	1,109	\$717	\$0.65
3TH	<u>108</u>	<u>1.7%</u>	<u>1,317</u>	<u>\$942</u>	<u>\$0.72</u>
Total/Average	6,306	100%	906	\$682	\$0.75

* Defined as having 50 or more units.

Source: RealFacts; Economic & Planning Systems, Inc.

Table 13
City of Fresno Rental Selected Small Apartment Pricing *
San Joaquin Valley Growth Response Study

Property Name	Avg SqFt	Avg Rent	Avg Rent/ SqFt
The Chestnut Apartments	986	\$656	\$0.67
Alder Heights	553	\$575	\$1.04
Laurel Canyon	750	\$535	\$0.71
Sycamore Heights	694	\$543	\$0.78
Millbrook Gardens Apartment Homes	875	\$658	\$0.75
Ridge Pointe	717	\$555	\$0.77
Evergreen Terrace	713	\$573	\$0.80
Outrigger	895	\$560	\$0.63
Sequoia Ridge	900	\$585	\$0.65
Redwood Canyon	817	\$590	\$0.72
Stoneybrook	996	\$653	\$0.66
Arbor Ridge	982	\$853	\$0.87
Pine Valley	1,015	\$729	\$0.72
Dominion Heights Apartments	730	\$783	\$1.07
Island Lakes	793	\$868	\$1.09
Average	828	\$648	\$0.78

* Defined as having less than 50 units.

Source: Rent.com; Economic & Planning Systems, Inc.

- The average monthly rent at units in smaller apartment projects was about \$650 per month, for an average apartment size of 830 square feet, and an average per-square foot price of \$0.78. A number of projects offered units for rent in the \$500- to \$600-per month range.

NEW HOUSING PRICES

As described in **Chapter I**, new housing construction in the Region is predominantly single-family detached development in suburban configurations. There has been little construction of for-sale or rental compact development and also low levels of new construction of one- and two-story garden apartments.

New single-family home construction and sales currently command significantly higher prices than older developments. This is, in part, due to their newness, though more due to the middle-to-higher household incomes that are being targeted and the associated locations, sizes, and improvements. The Fresno/Clovis Quarterly Housing Report, prepared by California State University, Fresno, documents the sales prices at major subdivisions in submarkets surrounding the Fresno/Clovis urbanized core. Data on new single-family homes sales in the third quarter of 2003 in these subdivisions are shown in **Table 14** and described below. **Figure 3** provides a map of the subdivision subareas.

- The average price of purchasing a new single-family home in a subdivision in the Cities of Fresno and Clovis was about \$259,000 in 2003. The average home size was 2,200 square feet, for an average price per square foot of \$118. This is about twice the absolute cost of a resale single-family home and 40 percent higher in terms of price per square foot.
- Prices ranged from \$150,000 for a small home West of Highway 99 to \$600,000 for a large home in the northeast of Fresno.
- The Fresno Northwest, Fresno Northeast, Clovis North, and Clovis South subareas command the highest prices with average prices for each subarea in 2003 between \$275,000 and \$295,000. When average house sizes were taken into account the price similarity was even closer with the price per square foot between \$120 and \$125 across subareas. The average house size in these areas was 2,350 square feet.
- The Fresno southeast area commands lower prices with an average sales price of \$220,000 for new homes. These homes were smaller with an average size of 2,050 square feet, and an average per square foot sales price of \$108.
- The area to the West of Highway 99 commands the lowest average price of \$185,000 for new homes. These homes had the smallest average size of 1,750 square feet and an average per square foot sales price of \$106.

Table 14
2003 Single Family Home Sales Prices in Fresno and Clovis Subdivisions
San Joaquin Valley Growth Response Study

Subarea	Sales Price	SqFt	Price per SqFt
Clovis N	\$286,076	2,378	\$120
Clovis S	\$277,339	2,301	\$121
Fresno NE	\$289,686	2,342	\$124
Fresno NW	\$295,104	2,384	\$124
Fresno SE	\$221,506	2,053	\$108
Fresno W99	<u>\$186,170</u>	<u>1,750</u>	<u>\$106</u>
Average	\$259,313	2,201	\$118

Sources: Real Estate and Land Use Institute, California State University,
Fresno; Economic & Planning Systems, Inc.

A detailed map of Madera and Fresno counties, California. The map shows the county boundaries and major cities and towns. Madera is located in the northwest, and Fresno is in the northeast. The map includes labels for various cities and towns such as Madera, Fresno, Clovis, and Hanford. It also shows geographical features like the San Joaquin River and the Kings River. The map is oriented with North at the top.

COMPETITIVE PRICING OF COMPACT DEVELOPMENT

The Region's housing market is highly competitive with numerous local and regional developers and builders, and a starting presence of national builders, producing thousands of new housing units each year. Households seeking rental or for-sale housing have a lot of options and will carefully consider the price-quality trade-offs. While prices have appreciated quickly over the last several years, no individual development can afford to enter the market with higher prices unless it offers a quality-advantage over other product, whether in terms of schools, amenities, or size. Compact development is an untested, new concept for the Region. As a result, in its early years of market entry, pricing will need to be even more sensitive to the competitive nature of the housing market in which it will compete. The sections below first discuss the relative pricing of compact development with respect to other forms of development in other regions, and then suggest achievable price points for both new for-sale and rental compact development entering the regional housing market in the next several years.

FOR SALE DEVELOPMENT

Pricing Ratios

Compact for-sale product includes rowhouses/townhomes and condominiums/lofts. As in other regions, new for-sale higher density product will generally be smaller than single-family housing and command lower prices than single-family detached product. Townhomes will generally be built in the 1,100- to 1,500-square foot range, while condominiums and lofts will generally be in the 800- to 1,200-square foot range. Among the same product type, the price per square foot generally increases as units sizes decrease. In mature markets with a broad range of product types, however, prices per square foot often remain similar between product types in spite of size jumps. In untested, but competitive, markets, the price per square foot of for-sale compact development will need to be lower than that of new single-family detached product.

Achievable Price Points

As describe above, the current per-square foot pricing for new single-family detached homes range from about \$105 to \$125 per square foot, with the range depending, in large part, on the development's location. As a result, new townhomes and condominiums in the Fresno Region will be expected to command average pricing in the \$95 to \$115 per-square foot range, depending on location, though always below the current range for new single-family homes. As a result, competitively priced rowhouses/townhomes in upscale neighborhoods will command prices in the \$125,000 to \$172,500 range, depending on size, while the same product in less upscale neighborhoods will command prices in the \$105,000 to \$142,500 range. Similarly, competitively priced condominiums in upscale neighborhoods will command prices in the \$90,000 to \$140,000 range, depending on size, while the same product is less upscale neighborhoods will command prices in the \$75,000 to \$115,000 range.

RENTAL DEVELOPMENT

Pricing Ratios

Unlike attached single-family product that achieves lower prices than single-family detached development, rental compact development generally achieves higher price points than garden apartments. The higher construction costs associated with high-density apartment development generally means that it is aimed at higher income segments and thereby includes more amenities, fixtures, and fittings. In general, new compact development can command premiums of 15 to 25 percent above existing apartment rents.

Achievable Price Points

As described above, the current per square foot pricing for the majority of units in large apartment buildings varies between \$600 per month for a one-bedroom, one-bath product to \$825 per month for a two-bedroom, two-bath product. As a result, new compact development in the Region could likely command 20 percent premiums over these rents or about \$720 per month for one-bedroom, one-bath units and \$1,000 per month for two-bedroom, two-bath product. It is assumed that a two-bedroom, one-bath product would command a rent of \$850 per month, and a three-bedroom, two-bathroom product, a rent of \$1,100 per month.

EFFECTIVE DEMAND PROFILE

The competitive pricing outlined above provides an estimate of the maximum average pricing that could be charged for compact development for it to be competitive in the Region's housing market. Developers and builders will, however, also take account of the demand profile as well as development costs in determining whether to charge prices at this level or below. The subsequent chapter demonstrates the unlikelihood of developers charging at levels below this maximum competitive pricing level. This section compares the competitive pricing with the demand profile developed in **Chapter II** to determine the extent to which pricing and ability-to-pay might constrain the potential demand for compact development.

Table 15 shows the maximum, competitive pricing rates for the different product types. It also compares the ability-to-pay of the households in the two different income groups (see **Table 10**) to these prices. As shown, all of the households included in the demand profile can afford many of the compact development types considered and the majority can afford all of them. About one-third of moderate income households (in the top 25 to 55 percent of households) will be unable to afford townhomes in upscale locations, while about 10 percent of these households will be unable to afford large townhomes in standard locations and large condos in upscale locations. High-income households (in the top 25 percent of households) will be able to afford all products at these prices.

Table 15
Ability-to-Pay vs. Compact Development Pricing
San Joaquin Valley Growth Response Study

Household Income Percentile	Standard		Standard		Upscale		Standard		Upscale	
	Rent Low \$720	Rent High \$1,100	Condo Low \$75,000	Condo High \$115,000	Condo Low \$90,000	Condo High \$140,000	Townhome Low \$105,000	Townhome High \$142,500	Townhome Low \$125,000	Townhome High \$172,500
Top 25%	All	All	All	All	All	All	All	All	All	All
Top 25 - 55%	All	Large Majority	All	All	All	Large Majority	All	Large Majority	All	Majority

Source: Economic & Planning Systems, Inc.

As a result, demand for compact development will not be significantly limited by its affordability. Rather constraints on its development are more likely to be due to the number of households who are interested in it and the number of developers who are willing to construct it.

IV. FINANCIAL FEASIBILITY OF COMPACT DEVELOPMENT

This chapter evaluates the financial feasibility of compact development given the maximum competitive pricing described above, standard assumptions concerning builder returns, and development costs under different scenarios. This chapter demonstrates the significant financial obstacles to compact development in the Region and points to the circumstances and the locations where they are most likely to occur.

ANALYTICAL APPROACH

A static residual land value analysis is used to evaluate different development scenarios. Under this approach, the amount a builder/developer would pay for a site is evaluated by subtracting all the development costs and profit requirements from the market value of the development (pricing multiplied by product types). The residual of this analysis is the residual land value and represents the maximum amount a builder/developer could pay for the site and still make the specified profit.

If the residual land value is less than zero, the builder/developer would not construct the project without financial assistance, even if the site were provided for free. If the residual land value is close to zero and the site were provided for free, the builder/developer would construct the product. If the residual land value is greater than zero, then the builder/developer would be prepared to pay this amount to acquire the site. Unassisted development will, however, only occur if the developer is able to purchase suitable sites at the price they are willing to pay. If the asking price for land is higher than the price the developer is willing to pay, the developer will require assistance with acquiring the land.

This analysis considers three different product types: townhomes, condominiums, and three-story apartments. The residual land value is estimated for these product types under a number of different scenarios, including a best case scenario (lowest development costs) and three additional scenarios: (1) structured parking required, (2) a high level of entitlement risk, and (3) demolition of existing building required. Where residual land values are positive, they are then compared to average improved land values, both for vacant sites and for sites with a business currently operating on them. All the assumptions included in the analysis are estimated averages, appropriate for planning-level analysis only. Individual properties and projects will have different circumstances and different price points, constructions costs, profit requirements, and land values.

REGIONAL LAND VALUES

Improved land values in the Region vary considerably depending on zoning, the size of the site, the existing development on the site, the level of public services, proximity to transportation infrastructure, and the availability of amenities, including shopping and services, among others.⁶ Land values vary more widely than housing prices and hence it is more difficult to determine average values. Nevertheless, simple residual land value analysis reveals estimates of average, improved land value for both new growth areas where single-family detached development is an option and for infill/revitalization areas where existing businesses are currently operating. A review of recent, vacant land sales data in the existing urbanized area of the City of Fresno also provides estimates of improved land values for vacant land in infill/revitalizations areas. These data sets reveal the following improved land values as guidance points:

- **Upscale, New Growth Areas.** As shown in **Table 16**, areas entitled for and suitable for single-family detached development in more upscale, new growth areas will likely command average improved land values of about \$7.50 per land square foot.
- **Standard, New Growth Areas.** As shown in **Table 16**, areas entitled for and suitable for single-family detached development in more standard, new growth areas will likely command average improved land values of a little over \$3.00 per land square foot.
- **Vacant, Infill/Revitalization Areas.** As shown in **Table 17**, the per-land square foot sales price of vacant, residentially zoned land in the existing urbanized areas of the City of Fresno varies widely and generally includes very small parcel sizes. The land sales comparables shown all occurred since 2000 and fall within an area that includes most of downtown and areas to the north, roughly defined by First Street to the east, Butler and Kearny Avenues to the south, Pacific Avenue and Highway 99 to the west, and Shields Avenue to the north. The average per-land square foot sales price for these improved land areas is \$4.70 per land square foot. In reality, a developer will likely need to assemble a series of parcels and would pay widely divergent per-square foot prices for each parcel.
- **Current Business, Infill/Revitalization Areas.** In order to persuade an existing business owner to sell their property, a land value must be offered that exceeds the capitalized land value implied by the on-going operation of the business. As shown in **Table 18**, sites containing older, leased commercial buildings are likely to command prices of over \$15 per square foot.

⁶ Improved land is here defined as land that has its backbone infrastructure in place, including transportation, water, sewer, and storm drain improvements up to the site. It does not include the intract (internal) improvements that will be necessary to serve new development on the site.

Table 16
Single Family Home Residual Land Value Analysis
San Joaquin Valley Growth Response Study

Category	Assumption	Amount by Product Type	
		Higher End	Standard Product
Project Summary			
Lot Size		7,000	6,500
Average sqft./Unit		2,350	1,900
Net to Gross Ratio		17.0%	17.0%
Units per Gross Acre		5.3	5.7
Units per Net Acre		6.2	6.7
Revenues			
Avg. Price Per Unit		\$285,000	\$200,000
Avg. Price per SF		\$121	\$105
Direct Costs per Unit (excluding land)			
Building Construction	/ gross sqft	\$60.00	\$60.00
Subtotal		\$141,000	\$114,000
Homebuilder Fee	8% of construction	\$11,280	\$9,120
In Tract Costs	per lot	\$17,500	\$12,500
General Conditions	4% of construction	<u>\$6,340</u>	<u>\$5,060</u>
Subtotal		\$176,120	\$140,680
Indirect Costs (excluding land)			
Planning & Entitlement	0.35% of direct costs	\$616	\$492
Fees & Permits	3.0% of direct costs	\$5,284	\$4,220
Architecture & Engineering	1.65% of direct costs	\$2,906	\$2,321
Construction Management	2.0% of direct costs	\$3,522	\$2,814
General & Administrative	3.0% of direct costs	\$5,284	\$4,220
Financing & Charges	6.0% of direct costs	\$10,567	\$8,441
Sales & Marketing	5.0% of unit value	\$14,250	\$10,000
Contingency	3.0% of direct costs	\$5,284	\$4,220
Subtotal		<u>\$47,713</u>	<u>\$36,729</u>
Total Costs			
Per Unit		\$223,833	\$177,409
Residual Land Value			
Per Unit		\$61,167	\$22,591
Land Value/Unit Sales Price		21%	11%
Per Gross Acre		\$325,329	\$129,396
Per Gross Sq. Ft.		\$7.47	\$2.97

Source: Economic & Planning Systems, Inc.

Table 17
Vacant, Infill/ Revitalization Areas: Improved Land Values
San Joaquin Valley Growth Response Study

Parcel #	Zoning	Sales Date	Sales Price	Size (acres)	Price/SF
464-080-15	R-1	03/21/02	\$50,000	1.46	\$0.79
449-321-10	R-2	11/12/03	\$185,000	0.23	\$18.47
450-260-07	R-1	12/12/03	\$60,000	0.95	\$1.45
458-123-10	R-1	04/16/03	\$126,000	0.16	\$18.08
458-212-19	R-3	03/24/04	\$5,500	0.12	\$1.05
464-113-10	R-1	05/25/00	\$33,000	0.36	\$2.10
464-122-07	R-1	03/15/02	\$3,500	0.36	\$0.22
465-213-08	R-1	02/17/04	\$144,500	0.24	\$13.82
465-215-11	R-1	03/15/02	\$6,000	0.16	\$0.86
465-216-03	R-1	01/06/04	\$133,500	0.32	\$9.58
465-216-05	R-1	11/10/03	\$132,000	0.32	\$9.47
465-232-09	R-1	07/12/03	\$135,000	0.15	\$20.66
465-233-11	R-1	01/30/02	\$4,000	0.12	\$0.77
465-263-01	R-1	04/26/04	\$40,000	0.68	\$1.35
464-121-08	R-1	07/17/03	\$130,000	0.17	\$17.56
464-113-12	R-1	08/19/02	\$32,000	0.67	\$1.10
444-151-15	R-3	05/07/03	\$45,000	0.23	\$4.49
452-263-07	R-1	03/15/02	\$5,000	0.14	\$0.82
459-291-17	R-1	05/07/03	\$15,000	0.25	\$1.38
465-162-08	R-2	01/20/04	\$20,000	0.34	\$1.35
465-251-02	R-2	09/04/03	\$140,000	0.16	\$20.09
465-165-13	R-2-A	07/29/02	\$8,500	0.17	\$1.15
465-164-01	R-2-A	09/10/01	\$70,000	2.94	\$0.55
443-251-09	R-1	09/12/03	\$147,000	0.14	\$24.10
451-063-02	R-2-A	12/26/02	\$175,000	0.11	\$36.52
452-055-03	R-1	05/12/00	\$11,500	0.08	\$3.30
451-273-01	R-2	01/23/02	\$40,000	0.22	\$4.17
452-225-32	R-3	03/15/04	\$15,000	0.17	\$2.03
459-061-27	R-1	02/05/03	\$7,000	0.12	\$1.34
459-312-23	R-1	01/08/04	\$20,000	0.17	\$2.70
459-072-24	R-3	10/15/03	\$30,000	0.09	\$7.65
459-163-04	R-3	03/05/04	\$20,000	0.11	\$4.17
459-085-02	R-2	03/02/04	\$143,000	0.19	\$17.28
452-306-04	R-3	09/05/03	\$40,000	0.17	\$5.40
459-171-02	R-3	06/13/03	\$135,000	0.14	\$22.14
459-172-04	R-3	12/29/03	\$20,000	0.14	\$3.28
459-173-09	R-3	07/21/03	\$25,000	0.19	\$3.02
459-272-01	R-4	03/18/02	\$15,000	0.20	\$1.72
459-274-12	R-4	03/15/04	<u>\$350,000</u>	<u>0.28</u>	<u>\$28.70</u>
Total/ Average			\$2,717,000	13.2	\$4.72

Sources: Fresno County Assessor's Office; First American Real Estate Services (FARES); Economic & Planning Systems, Inc.

Table 18
Current Business, Infill/ Revitalization Areas: Improved Land Values *
San Joaquin Valley Growth Response Study

Item	Number
Floor Area Ratio	0.25
Business Building SF per Acre	10,890
Monthly Lease Rate per Building SF	\$0.60
Annual Lease Revenues per Building SF	\$7.20
Operating Cost as % of Income	10%
Net Income per Building SF	\$6.48
Capitalization Rate	10%
Capitalized Value per Building SF	\$64.80
Value per Land Square Foot	\$16.20

* Occupied building is assumed to be an older commercial space, where construction debt has been paid off and operating costs are relatively low.

Source: Economic & Planning Systems, Inc.

RESIDUAL LAND VALUES OF COMPACT DEVELOPMENT

This section describes the residual land value analysis of the three compact development product types considered. The first subsection explains the analysis and results under the best case scenario, defined as the case with the lowest set of development costs. The subsequent subsections describe the other scenarios evaluated and the results of all the analyses.

BEST CASE SCENARIO

Tables 19, 20, and 21 show the static residual pro formas for the best case scenario for the three product types evaluated—townhomes, condominiums, and three-story apartments. Two different residual land value calculations are estimated for townhomes and condominiums, one that assumes they are located in generally more upscale, expensive locations (such as the northern portion of the City of Fresno), and the other in more standard locations. The product type and construction costs are the same in both areas and the price points are assumed to vary due to locational attributes only.

All of the residual land value analyses start with a prototype project description. They then compare revenue estimates to cost estimates and expected builder return requirements to estimate the residual land value. The price points used to derive the revenues are the maximum potential pricing estimates derived in **Chapter III**. The results of the analyses under the best case scenario are described below.

Upscale Townhomes and Condominiums

As shown in **Table 19**, the prototype project for townhomes was a 15-unit per acre project with an average unit size of 1,300 square feet. The prototype for condominiums was a 25-unit per acre project with an average unit size of 1,000 square feet. The per-square foot revenues for both product types were assumed to be \$115 per square foot, and the average prices \$149,500 and \$115,000.

Under the best case scenario, the condominium project is surface parked and so there are no additional parking construction costs. The site is also assumed to be vacant, so there are no demolition costs. Direct costs for both product types include \$55 per building square foot in building construction costs, a required developer return of 8 percent of construction costs, and typical estimates of intract and insurance costs. Insurance costs are especially high for condominiums at about \$10,000 per unit. Indirect costs are set at standard proportions of direct costs and housing prices. Under the best case scenario, planning and entitlement costs are relatively low at 0.35 percent of direct costs, as entitlements are assumed not to be problematic.

Table 19
Upscale Townhome/ Condo Residual Land Value Analysis - Best Case Scenario
San Joaquin Valley Growth Response Study

Category	Assumption	Product Type	
		Townhome	Condo
Project Summary			
Average sqft./Unit		1,300	1,000
Net to Gross Ratio		17.0%	17.0%
Units per Gross Acre		15.0	25.0
Units per Net Acre		17.6	29.3
Existing Building SF per Gross Acre		0	0
Existing Building SF per Unit		0	0
Revenues			
Avg. Price Per Unit	market competitive levels	\$149,500	\$115,000
Avg. Price per SF	market competitive levels	\$115	\$115
Direct Costs per Unit (excluding land)			
Building Construction	/ bldg sqft	\$55.00	\$55.00
Parking Construction	/ bldg sqft	\$0.00	\$0.00
Subtotal		\$71,500	\$55,000
Homebuilder Fee	8% of construction costs	\$5,720	\$4,400
In Tract Costs		\$10,000	\$5,000
Insurance		\$3,300	\$10,000
Demo Cost	\$5.00 per sf of existing facility	<u>\$0</u>	<u>\$0</u>
Subtotal		\$90,520	\$74,400
Indirect Costs (excluding land)			
Planning & Entitlement	0.35% of direct costs	\$317	\$260
Fees & Permits	3.0% of direct costs	\$2,716	\$2,232
Architecture & Engineering	1.65% of direct costs	\$1,494	\$1,228
Construction Management	2.0% of direct costs	\$1,810	\$1,488
General & Administrative	3.0% of direct costs	\$2,716	\$2,232
Financing & Charges	6.0% of direct costs	\$5,431	\$4,464
Sales & Marketing	5.0% of unit value	\$7,475	\$5,750
Contingency	3.0% of direct costs	<u>\$2,716</u>	<u>\$2,232</u>
Subtotal		\$24,674	\$19,886
Total Costs			
Per Unit		\$115,194	\$94,286
Residual Land Value			
Per Unit		\$34,306	\$20,714
Land Value/Unit Sales Price		23%	18%
Per Gross Acre		\$514,593	\$517,850
Per Gross Land Sq. Ft.		\$11.81	\$11.89

Source: Economic & Planning Systems, Inc.

Table 20
Standard Townhome/ Condo Residual Land Value Analysis - Best Case Scenario
San Joaquin Valley Growth Response Study

Category	Assumptions	Product Type	
		Townhome	Condo
Project Summary			
Average sqft./Unit		1,300	1,000
Net to Gross Ratio		17.0%	17.0%
Units per Gross Acre		15.0	25.0
Units per Net Acre		17.6	29.3
Existing Building SF per Gross Acre		0	0
Existing Building SF per Unit		0	0
Revenues			
Avg. Price Per Unit	market competitive levels	\$123,500	\$95,000
Avg. Price per SF	market competitive levels	\$95	\$95
Direct Costs per Unit (excluding land)			
Building Construction	/ bldg sqft	\$55.00	\$55.00
Parking Construction	/ bldg sqft	\$0.00	\$0.00
Subtotal		\$71,500	\$55,000
Homebuilder Fee	8% of construction costs	\$5,720	\$4,400
In Tract Costs		\$10,000	\$5,000
Insurance		\$3,300	\$10,000
Demo Cost	\$5.00 per sf of existing facility	\$0	\$0
Subtotal		\$90,520	\$74,400
Indirect Costs (excluding land)			
Planning & Entitlement	0.35% of direct costs	\$317	\$260
Fees & Permits	3.0% of direct costs	\$2,716	\$2,232
Architecture & Engineering	1.65% of direct costs	\$1,494	\$1,228
Construction Management	2.0% of direct costs	\$1,810	\$1,488
General & Administrative	3.0% of direct costs	\$2,716	\$2,232
Financing & Charges	6.0% of direct costs	\$5,431	\$4,464
Sales & Marketing	5.0% of unit value	\$6,175	\$4,750
Contingency	3.0% of direct costs	\$2,716	\$2,232
Subtotal		\$23,374	\$18,886
Total Costs			
Per Unit		\$113,894	\$93,286
Residual Land Value			
Per Unit		\$9,606	\$1,714
Land Value/Unit Sales Price		8%	2%
Per Gross Acre		\$144,093	\$42,850
Per Gross Land Sq. Ft.		\$3.31	\$0.98

Source: Economic & Planning Systems, Inc.

Table 21
Apartment Residual Land Value Analysis - Best Case Scenario
San Joaquin Valley Growth Response Study

Item		3-Story Apartment
PROTOTYPE PROJECT DESCRIPTION		
Units Per Net Acre		44
Net to Gross Ratio		20%
Units Per Gross Acre		35
Existing Building SF per Gross Acre		0
Existing Building SF per Unit		0
<u>Avg. Unit Size (Sq. Ft.) -- Excluding Parking</u>		
Studio		500
1 Bedroom		700
2 bedroom		950
3 bedroom		1,100
<u># of Units</u>		
Studio		3
1 bedroom		8
2 bedroom		20
3 bedroom		4
Total		35
Load Factor (1)		105%
Total Building Sq. Ft. (excluding parking)		32,025
Required FAR		0.92
Development Costs		
<u>Direct Costs</u>		
Land		
Building Hard Costs	/ bldg sqft	\$60.00
Parking Construction	/ bldg sqft	\$0.00
Subtotal		\$1,921,500
In-Tract Improvements	\$2.50 /land sqft.	\$108,900
Demo Costs	\$5.00 per sf of existing build	\$0
Builder Fee	8% of construction costs	<u>\$162,432</u>
Subtotal		\$2,192,832
<u>Indirect Costs</u>		
Planning & Entitlement	0.35% of direct costs	\$7,675
Permits & Fees	3.0% of direct costs	\$65,785
Architecture & Engineering	1.65% of direct costs	\$36,182
Construction Mngmnt.	2.0% of direct costs	\$43,857
General & Administrative	3.0% of direct costs	\$65,785
Financing & Charges	6.0% of direct costs	\$131,570
Start-up & Leasing	5.0% of direct costs	\$109,642
Contingency	3.0% of direct costs	<u>\$65,785</u>
Subtotal		\$526,280
Total Development Costs		\$2,719,112
per unit		\$77,689

Table 21 - cont'd
Apartment Residual Land Value Analysis - Best Case Scenario
San Joaquin Valley Growth Response Study

Item		3-Story Apartment
Operating Assumptions		
<u>Annual Rental Revenue</u>		
Studio	\$550 /month	\$19,800
1 Bedroom	\$720	\$69,120
2 Bedroom	\$900	\$216,000
3 Bedroom	\$1,100	\$52,800
Vacancy Allowance	7%	<u>(\$25,040)</u>
Effective Gross Income (EGI)		\$332,680
Operating Costs	30.0% of EGI (2)	\$99,804
Net Operating Income (NOI)		\$232,876
Project Value		
Total Capitalized Value	8%	\$2,910,947
Total Development Costs		<u>\$2,719,112</u>
Net Project Value		\$191,835
Residual Land Value per Gross Sqft.		\$4.40
Residual Land Value Per Unit		\$5,450

(1) The Load Factor incorporates non-rentable space such as wall partitions, utility areas, and common areas.

(2) Operating costs per Institute of Real Estate Management (IREM), Income and Expense Analysis Conventional Apartments, 1997.

Source: Economic & Planning Systems, Inc.

The resulting total per unit costs are \$115,000 and \$94,000, respectively. Subtracting costs from revenues provides the residual land values of \$11.80 per improved land square foot for townhomes and \$11.90 per land square foot for condominiums. These values are above the estimated existing land values in the new growth areas and vacant, infill parcels.

Standard Townhomes and Condominiums

As shown in **Table 20**, the prototype projects are the same as for the upscale prototypes. All the assumptions are the same with the exception of the per square foot revenues that are assumed to be lower due to different locational amenities. Price points are set at \$95 per square foot for both product types, and the average prices \$123,500 and \$95,000, respectively. The total per unit costs are estimated at \$114,000 and \$93,000, respectively. Subtracting costs from revenues provides the residual land values of \$3.31 per improved land square foot for townhomes and \$0.98 per land square foot for condominiums. The townhome land values are above the existing values in the standard, new growth areas, though the condominium values are lower. Land values associated with both product types are lower than the average land value for vacant, infill parcels.

Three-Story Apartments

As shown in **Table 21**, the prototype project for apartments was a 35-unit project (on one acre) with a mix of studios, one-bedrooms, two-bedrooms, and three-bedrooms. Two-bedrooms are assumed to be predominant, and average sizes are similar to existing apartment sizes in the Region.

Under the best case scenario, the apartment project is surface parked and so there are no additional parking construction costs nor are there demolition costs. Direct costs include \$60 per building square foot in building construction costs, a required developer return of 8 percent of construction costs, and standard intract improvement costs. Indirect costs are set at standard proportions of direct costs and housing prices. Under the best case scenario, planning and entitlement costs are relatively low at 0.35 percent of direct costs, as entitlements are not assumed to be problematic. The resulting cost of the prototype project is \$2.7 million or \$77,700 per unit.

Net operating revenues were based on the maximum competitive pricing costs for different product types, an assumed vacancy rate of 7 percent, and assumed operating costs at 30 percent of effective gross income. The resulting net annual operating revenue was \$233,000. Capitalizing at 8 percent results in an overall project value of \$2.91 million and after subtracting total project costs, an improved land value of \$4.40 per square foot. These values are above the existing land values in the standard, new growth areas, and very similar to the land values of vacant, infill parcels.

OTHER SCENARIOS

The best case scenario showed the residual land values where the site is vacant, there are no buildings to be demolished, the project can be surface parked, and entitlements are readily available. The land value comparisons suggest that market-driven development may occur under these circumstances in some locations. Three additional scenarios were also evaluated to show how the likelihood of unsupported market-driven development declines as development costs increase and residual land values fall.

Table 22 summarizes the results of the residual land value analyses under all the scenarios and the additional scenarios are described below:

- **Additional Scenario 1: Demolition Costs.** This scenario assumed that the site included an unused building at a floor-area-ratio of 0.25, which would need to be demolished prior to development at a cost of \$5.00 per building square foot. Under this scenario, the additional costs reduce the residual land values by about \$1.50 per square foot.
- **Additional Scenario 2: Entitlement Risk** This scenario assumed that there was a high degree of entitlement risk due to potential opposition to the density of the project, and assumes higher entitlement costs in outreaching to the community, adjusting plans, and conducting studies. If planning and entitlement costs are assumed to increase from 0.35 percent to 5.0 percent of direct development costs, residual land values fall by between \$1.50 and \$2.50 per square foot, depending on the product type.
- **Additional Scenario 3: Structured Parking** This scenario assumes that the condominium project and the apartment project cannot be surface parked, and so developers must construct some types of structured parking themselves, whether in deck, wrap, or stand-alone form. Assuming an additional \$7.50 per building square foot cost to provide this parking, residual land values for condominiums and apartments fall by between \$5.50 and \$7.50 per square foot.⁷

FEASIBILITY OF COMPACT DEVELOPMENT

Table 22 shows estimated average land prices by location in addition to the residual land values associated with compact development. The residual land values associated with compact development must be above the estimated land prices for compact development to occur without additional support. If the residual land values are below

⁷ It should be noted that projects that are required to construct structured parking will likely build at higher densities than those evaluated, increasing overall revenues and reducing the net impact of the need for a parking structure.

Table 22
Residual Land Value Analysis Summary - All Scenarios - Per Square Foot Improved Land
San Joaquin Valley Growth Response Study

Scenario	Upscale Location		Standard Location		Apartments
	Townhomes	Condos	Townhomes	Condos	
Residual Land Values per Square Foot					
Best Case Scenario	\$11.81	\$11.89	\$3.31	\$0.98	\$4.40
<u>Additional Scenario 1</u> Demolition Costs	\$10.33	\$10.40	\$1.82	-\$0.50	\$2.86
<u>Additional Scenario 2</u> Entitlement Risk	\$10.36	\$9.90	\$1.86	-\$1.00	\$2.06
<u>Additional Scenario 3</u> Structured Parking	--	\$6.36	--	-\$4.55	-\$2.98
Estimated Land Prices (1)					
New Growth Area	\$7.47	\$7.47	\$2.97	\$2.97	\$2.97
Infill/ Revitalization Areas - No Business	--	--	\$4.72	\$4.72	\$4.72
Infill/ Revitalization Areas - Business	--	--	\$16.20	\$16.20	\$16.20

(1) See Tables 15, 16, and 17.

Source: Economic & Planning Systems, Inc.

existing land prices, but are positive, developers will construct the product if the land is assembled and provided at zero or below market cost. The comparison of estimated land prices with the residual land values suggests the following conclusions:

- Under the best case scenario, compact development product types in some locations could result in returns and land values greater than those under other uses.
- When additional barriers to development are considered, including entitlement, demolition, existing business, and parking structure needs, market-driven compact development becomes less viable. These barriers are most likely to occur in infill/revitalization areas in existing urbanized areas.
- When these additional barriers are in place, policy and financial support that address entitlement risk, help assemble developable properties, and develop area-wide solutions to parking needs will be required to support compact development, in addition to general investments in public services, infrastructure, and cultural and recreational amenities.

Based on these observations, the most likely forms of compact development to occur in the Region in the short term are described below:

- **Market-driven Townhomes in New Growth Areas.** Townhome development in upscale neighborhoods commands a strong positive residual land value and is likely to be increasingly integrated into land use plans. Townhomes are already a small part of the housing market, and more can be expected to be developed. Townhome development is most likely to be successful in master-planned, new, growth areas, where the product can be one of many and can improve overall absorption rates by appealing to portions of the market that cannot get the same price points or lifestyle options from the other residential products. In this way, it will also avoid many of the planning and entitlements hurdles and take advantage of the amenities that will be financed by the development project as a whole. Townhomes in standard locations command residual land values a little above those commanded by single-family detached development. Such development could also be expected to occur as part of a master-planned development aimed at attracting additional segments of the market.
- **Market-based Condominiums in New Growth Areas.** Condominium development could also be integrated into master-planned new growth areas, though initially are more likely to be found in upscale communities. Condominium projects will benefit from the project-wide amenities, though will face more hurdles, especially in more standard locations. Financially, their residual land values are lower than estimated land prices in standard locations, reducing their likelihood of development. Their product type is an even greater departure from standard regional housing than are townhomes, so demand may initially be weaker. In addition, resistance by members of master-planned communities to lower cost forms of development could also influence developers to exclude condominiums, except where it is a higher-end,

more expensive product type. As a result, some master-planned developments are likely to integrate condominium development, especially in more upscale projects. Condominiums might also be integrated into some master-planned communities in standard locations, positioning them strategically for example, close to the project's central amenities.

- **RDA-supported Townhomes, Condominiums, and Apartments in Urbanized Areas.** The residual land values of townhome and condominiums outside of upscale neighborhoods are generally below the asking prices for land in urbanized areas. Apartment projects appear to have higher residual land values, though are slightly below the average land costs estimated for vacant, urban sites. Furthermore, the lack of urban amenities in many of the existing urbanized areas and corridors will mean that demand, at least in the short- to medium-term, will be well below the demand levels estimated above, which assumed a fully amenitized urban environment. It is therefore unlikely that there will be a large number of purely market-driven projects of this nature in the near future. The likelihood of market-driven development is less likely on potential redevelopment sites with existing businesses or in cases where structured parking is required—in these cases the disparity between land cost and residual land value is very large. Nevertheless, the residual land value analysis also suggests that if the relevant RDA could provide support in the form of providing entitled, vacant land with parking requirements/structures, or in other ways, a number of such projects could be catalyzed, supporting the development of place and more development further down the road. The rate of this development will be constrained both by the demand for compact development in the existing urbanized areas (including the proportion of households interested in living in more urban environments and the level of public services, infrastructure, and amenities) and by the amount of land/revenues at the disposal of the RDA.⁸
- **Transit-supported Condominiums/Apartments.** Transit systems end up supporting compact developments in a number of ways. First, they often require property assembly that could also provide sites for compact development. Second, they generally involve extensive planning and the integration of supportive mechanisms for compact development, whether through lower parking requirements, zoning changes, or a general acceptance that density close to transit stations is appropriate. Third, they often come with a significant amount of State or federal funding that can be invested in improvements and infrastructure that support the transit system, but that could also support transit-oriented development. The significance of this support from transit will be closely tied to the type of transit system developed, though, in most cases, it is likely to help catalyze development of higher density product types around the transit stations.

⁸ The City of Fresno RDA is currently involved in attempts to catalyze a number of developments in its downtown. Information on these projects is provided in **Appendix B**.

In the longer term, the prospects for compact development will grow. As more products enter the market, the aversions or uncertainty of some to this type of living will reduce. Master-planned communities will incorporate more condominium developments in addition to townhomes. Compact development will in itself help to enliven existing urban areas, helping to create some of the sense of place that will bring others into these locations. Price points will rise to be closer, on a per square foot level, with single-family homes, making development more financially feasible and reducing dependence on RDA-support. Also, as the number of potential locations for single-family development declines, single-family prices will rise above the rate of inflation and income growth, making townhomes and condominiums more appealing to more households. At the same time, the structure of the regional economy is also likely to change, bringing in more young professionals, and the population will continue to age, resulting in more households seeking smaller living spaces in more vibrant places. Other national trends, including a renewed interest in city living and the desire to reduce commute times, may also support such efforts in the Region.

The policymakers and policies of the Region's cities, counties, and special districts will also have to play a large role if compact development is to materialize, in addition to the on-going efforts of community-based organizations working towards more compact, equitable, and transit-served land use patterns. Policymaker support for compact development is often key to helping overcome initial neighborhood opposition to compact development in existing urbanized areas. Revisiting the policies that often limit compact development, such as zoning, height restrictions, and high parking requirements, will also be important. Infrastructure and public services investments (transportation, parks and recreation, and public safety services) may also need to be rethought to encourage the revitalization of urban areas. A commitment to locating future cultural, educational, and entertainment venues in the downtowns or other central urban areas will also be important. The relevant RDAs will have a key role to play in certain areas, both by providing support for individual sites and projects, and also in helping revitalize existing urban areas that are not currently functioning at their full potential.

V. REGIONAL GROWTH SCENARIO

The purpose of Phase III of the SJVGRS is to apply a set of technical tools to projections of future growth to determine the impacts of different growth scenarios. The *Initial Run* assumed a continuation of the historical trends, with a similarly high focus on single-family detached development and a similarly small supply of compact development. One potential *alternative growth scenario* assumes that policymakers seek to promote compact development aggressively through their policies and their actions, but also takes account of the market and financial realities present in the Region. This chapter provides background information for such a scenario, indicating the proportion of residential development that could be shifted towards compact forms of development over the next 30 years.

ANALYTICAL ASSUMPTIONS

The analytical assumptions used are based on the evaluation in the preceding chapters. The analysis assumes that the total number of new households added in the Region between 2003 and 2034 is the 260,000 households, the same as under the Base Case Scenario. As shown in **Table 23**, this growth is divided into three time periods and the proportion of new growth that is compact development is expected to change over time. The proportion of new households that might live in compact development forms is estimated, as described below, and is divided between projects in new growth areas, projects in infill/revitalizations areas that are assisted by RDA or transit-related efforts, and projects in infill/revitalizations areas that are purely market-driven.

As of 2003, about 3.5 percent of the Region's households were single-family attached units with minimal three-story apartment or condominium projects. With aggressive policies by local and regional jurisdictions, including the Cities, the Counties, and the RDAs, the proportion of new growth between 2003 and 2013 that could be accommodated in compact development is estimated at 6.5 percent, with the majority in new growth areas or spurred by RDA investments. Over time, this proportion is expected to increase as compact living becomes more common, developer and consumers see the potential advantages, and certain urban areas become more vibrant. As a result, between 2013 and 2023, about 9 percent of new households might choose to live in compact development.

Between 2023 and 2034, further increases in the capture of compact development are likely. Continued acceptance of this product type, potential economic and demographic changes in the Region, and a more constrained supply of land for single-family housing, could all result in increased proportions. As a result, as much as 14 percent of

Table 23

**Estimates of Market-Constrained Potential for Compact Development *
San Joaquin Valley Growth Response Study**

Item	2003-2013	20013-2023	2023-2034	Total
<u>Household Growth Projections</u>				
New Households	65,852	81,620	112,528	260,000
<u>Compact Development Growth Share</u>				
New Growth Areas	3.0%	4.0%	6.0%	4.7%
Infill/ Revitalization Areas - RDA (1)	3.0%	4.0%	5.0%	4.2%
Infill/ Revitalization Areas - Non-RDA (1)	0.5%	1.0%	3.0%	1.7%
Total	6.5%	9.0%	14.0%	10.6%
<u>Compact Development Households</u> (rounded 00's)				
New Growth Areas	2,000	3,300	6,800	12,100
Infill/ Revitalization Areas - RDA (1)	2,000	3,300	5,600	10,900
Infill/ Revitalization Areas - Non-RDA (1)	300	800	3,400	4,500
Total	4,300	7,400	15,800	27,500

* Compact development is defined as rowhouses/ townhomes, condominiums/ lofts, and apartments of three stories or more.

(1) Intensification projects are divided into two categories, those that will receives support from the RDA or other outside funding sources and those that do not.

Source: Economic & Planning Systems, Inc.

new households between 2023 and 2033 could be expected to locate in compact development, with market-spurred development in infill/revitalization areas contributing a large share.

These estimates are optimistic and presume pro-active and strong policies on the part of local jurisdictions. Compared to the estimates of potential demand of about 12 percent of households, the next couple of decades see a capture of about 50 percent (6.5 percent) and 75 percent (9 percent) of that amount. By the third decade, it is assumed that compact development is accepted, there are many potential locations for vibrant, urban living, and the demographics of the Region have increased the potential demand to over 15 percent. By this time, the Region could capture almost all of this demand. This percent capture rivals a number of other cities that provide attractive options for both compact and standard forms of living.

RESULTS

As shown in **Table 23**, a total of 27,500 of the 260,000 new households (10.5 percent) locating in the SJVGRS Study Area might be expected to locate in compact development. About 12,100 of these households (about 45 percent) are expected to locate in new growth areas and 15,400 of these households (about 55 percent) are expected to locate in infill/revitalization areas. Of the households locating in infill/revitalization areas, about 70 percent will be driven by RDA or other assistance and 30 percent by the market alone.

The estimates apply to all potential new growth and infill/revitalizations areas throughout the Study Area, not just the ones specifically defined by the SJVGRS. However, policies could focus growth in particular locations, in particular in different infill/revitalization areas. Under this alternative growth scenario, compact development will be chosen instead of standard forms of development by many households. As a result, this shift to compact development will result in a corresponding reduction in the number of households living in standard forms of development.



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Real Estate Economics

Regional Economics

Public Finance

Land Use Policy

APPENDIX A

GEODEMOGRAPHIC DESCRIPTIONS



**Economic &
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Land Use Policy

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DESCRIPTION OF PRIZM CLUSTER NARRATIVES

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Real Estate Economics

Regional Economics

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Land Use Policy

APPENDIX B

CITY OF FRESNO RDA PROJECTS

APPENDIX B: CITY OF FRESNO RDA PROJECTS

Several redevelopment projects are in the planning stage and/or ready to break ground in the City of Fresno. The City's RDA expects to take an active role in these projects. The RDA may get involved in activities such as land acquisition, short-term financing, and capital improvements. For example, the RDA had a significant participation in a recent redevelopment project, Regional Medical Center project, which is currently under construction on a 20-acre site. For this project, the RDA purchased the property, demolished buildings, relocated some of the existing offices and houses, and sold the land to the regional medical center and to the UCSF medical school.

However, the RDA's level of participation is project specific, and details are to be worked out through agreements between the City and developers. The most noteworthy project is the one on an 80-acre site on Tulare Street between the railroad tracks and Van Ness down to Freeway 41. Currently, Forest City, a national developer, has an exclusive negotiation agreement with the City to develop this site. This is likely to be a mixed-use project, which may include a few big box and smaller retail stores as well as offices and housing. The City hopes to see a range of density in the housing component of the development. However, specific details will be worked out during the negotiation process in the next six months.

The Chinatown Project is another large-scale project, although likely to be less dense than the aforementioned project. The Chinatown Project's site is also about 80 acres in size, and it is located on Fresno Street, between Freeway 99 and the railroad tracks. This would be an in-fill project focusing on rehabilitating existing buildings for the historic restoration of the area. The City is currently in the process of putting together an exclusive negotiation agreement with a selected developer. Density of the project is likely to be similar to current density (mostly one and two story buildings).

The Broadway and Vagabond projects are two smaller housing projects in the pipeline. The Broadway project is an in-fill development to be located on a five-acre site in the Cultural Art District in the northern part of downtown. The City just selected a developer through an RFQ process and is expected to enter into an exclusive negotiation agreement in the near future. About 120 for-sale live/work and townhouse units as well as 30,000 to 40,000 square feet of commercial space in three-story buildings are envisioned for the Broadway project. This project would target the artist community in the area.

The Vagabond project is also an in-fill development to be located on a one-acre site in the Cultural Art District. A total of 38 live/work rental lofts and six commercial spots are planned for this project. Of the total units, nine would be affordable. This project also plans to target the artist community in the area, and is planned to break ground in a few months. Recently a four-unit live/work loft was successfully developed and rented in the Cultural Art District, which served as a predecessor to the Vagabond project.